

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name MASON COUNTY	County MASON
Audit Date DECEMBER 31, 2003	Opinion Date MAY 7, 2004	Date Accountant Report Submitted to State: AUGUST 31, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) LAYTON & RICHARDSON, P.C.			
Street Address 1000 COOLIDGE ROAD	City EAST LANSING	State MI	ZIP 48823
Accountant Signature Diane L. Gouch, CPA			

MASON COUNTY, MICHIGAN

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
AND INDEPENDENT AUDITORS' REPORT**

DECEMBER 31, 2003

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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
of Mason County
Ludington, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Mason, Michigan as of and for the year ended December 31, 2003, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the County of Mason, Michigan. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Mason County Road Commission. The Mason County Road Commission represents 82% of the assets and 99% of the revenues of the component unit fund type. Those financial statements were audited by another auditor whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Mason County Road Commission is based solely on the report of the other auditor.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Mason, Michigan as of December 31, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 1 to the financial statements, the County of Mason, Michigan adopted the provision of Governmental Accounting Standards Board (GASB) Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB 37, *Basic Financial Statements - and Management's Discussion and Analysis – for State and Local Governments Omnibus* and GASB 38, *Certain Financial Statement Notes Disclosures*, as of January 1, 2003.

The management's discussion and analysis and the required supplementary information on pages 3 through 9 are not a required part of the basic financial statement but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted primarily of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the County of Mason, Michigan's basic financial statements. The accompanying introductory section, supplemental financial information, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the County of Mason, Michigan. The supplemental financial information and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 7, 2004 on our consideration of the County of Mason, Michigan's internal control over financial reporting and our tests of its compliance with certain laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report considering the results of our audit.


Certified Public Accountants

East Lansing, Michigan
May 7, 2004

As management of the County of Mason, we offer this narrative overview and analysis of the financial activities of the County, including limited information pertaining to the separately audited Road Commission for the year ended December 31, 2003. For more detailed information, the Road Commission's separately issued financial statements may be obtained from their administrative office. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the accompanying basic financial statements.

Financial Highlights

- * The assets of the County primary government exceeded its liabilities at the close of fiscal year by \$25,240,286.05 (*net assets*). Of this amount \$10,997,112.67 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- * The County's total net assets increased by \$2,293,189.32 during 2003.
- * As of the close of the current fiscal year, the County's governmental funds (this includes the general fund, special revenue funds, debt service and capital projects funds) reported combined ending fund balances of \$11,212,187.42 a decrease of \$691,163.89 in comparison with the prior year. Of the fund balance amount, \$8,658,555.80 is *available for spending* at the government's discretion (*unreserved fund balance*).
 - * The general fund had an excess of \$95,750.36 for 2003. At the end of the year, unreserved fund balance for the general fund was \$1,339,277.87 or approximately 16% of total general fund expenditures. Total fund balance for the general fund was \$1,442,428.15.
- * The County's total bonded debt increased by \$2,200,000.00 during the current fiscal year.

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the County as a whole (government-wide financial statements) and present a longer-term view of the County's finances. Fund financial statements tell how these services were financed in the short-term as well as what remains for future spending. Fund financial statements also report the County's operations in more detail than the government-wide statements providing information about the County's most significant funds.

The remaining statements provide financial information about activities for which the County acts solely as a trustee or agent for the benefit of those outside of the government. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Reporting the County as a Whole

The Statement of Net Assets and the Statement of Activities. One of the most important questions asked about the County's finances is, "Is the County as a whole better off or worse off as a result of this year's activities?" The Statement of Net Assets and the Statement of Activities report information about the County as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the County's *net assets* and changes in them. One can think of the County's net assets – the difference between assets and liabilities – as one way to measure the County's financial health or *financial position*. Over time, *increase or decreases* in the County's net assets are an indicator of whether its *financial health* is improving or deteriorating. During 2003, the net assets of the County increased by \$2,293,189.32.

Reporting the County as a Whole - Concluded

The Statement of Net Assets and the Statement of Activities, present information about the following:

Governmental activities. All of the County's basic services are considered to be governmental activities, including legislative, judicial, general government administration, public safety, public works, health and welfare, recreation and cultural, and other activities. Property taxes, intergovernmental revenue, and charges for services finance most of these activities.

Business-type activities. Other functions of the County that are intended to recover all or a significant portion of their costs through user fees and charges are considered to be business-type activities. These include delinquent tax collections, airport, and the sewer system.

Component units. The County includes two legally separate entities in its financial statements: the Mason County Drain Commissioner and the Mason County Road Commission. Although legally separate, these "component units" are important because the County is financially accountable for them.

Financial Statements for these *component units* are reported separately from the financial information presented for the primary government itself. The Mason County Department of Public Works and the Mason County Building Authority, although legally separate, functions for all practical purposes as departments of the County, and therefore have been included as an integral part of the primary government.

The government-wide financial statements can be found on pages 12-15 of this report.

Reporting the County's Most Significant Funds

Fund Financial Statement. The fund financial statements provide detailed information about the most significant funds – not the County as a whole. Some funds are required to be established by State law and by bond covenants. However, the County establishes many other funds to help control and manage money for particular purposes or to show it is meeting legal responsibilities for using certain taxes, grants, and other money. The County's two primary kinds of funds – *governmental and proprietary* – use different accounting approaches.

Governmental funds. Most of the County's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called the *modified accrual* basis of accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term* view of the County's general governmental operations and the basic services it provides.

Governmental fund information helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions.

Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The County maintains 43 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statements of revenues, expenditures, and changes in fund balances for the general fund and the medical care facility, each of which are considered to be major funds. Data for the other 41 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in the report.

Proprietary funds. The County maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government – wide in the government-wide financial statements. The County uses enterprise funds to account for delinquent tax operations, airport, public works and park operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the County's various functions. The County uses internal service funds to account for payroll fringe benefits and insurance costs. Because these services predominantly benefit governmental rather than business-type functions, they have been included within the *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the public works and airport operations. Conversely, all internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

Reporting the County's Fiduciary Responsibilities

The County is the trustee, or *fiduciary*, for certain amounts on behalf of others. Fiduciary funds are used to account for the resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of these funds are *not* available to support the County's own programs. The County's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. The accounting used in fiduciary funds is much like that used for proprietary funds. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Additional information

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The combining statements referred to earlier in connection with nonmajor governmental, enterprise and internal service funds are presented immediately following the notes to the financial statements.

Mason County's Net Assets

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
	<u>2003</u>	<u>2003</u>	<u>2003</u>
Current and other assets	\$24,396,518.90	\$6,893,928.06	\$31,290,446.96
Capital assets	<u>15,192,042.44</u>	<u>2,002,613.67</u>	<u>17,194,656.11</u>
Total Assets	<u>39,588,561.34</u>	<u>8,896,541.73</u>	<u>48,485,403.07</u>
Long-term liabilities			
Outstanding	3,425,521.20	5,275,000.00	8,700,521.20
Other liabilities	<u>13,931,205.20</u>	<u>613,090.62</u>	<u>14,544,295.82</u>
Total liabilities	<u>17,356,826.40</u>	<u>5,888,090.62</u>	<u>23,244,817.02</u>
Net Assets:			
Invested in capital assets, net of related debt	8,579,962.39	763,751.49	9,343,713.88
Restricted	4,899,459.50	0.00	4,899,459.50
Unrestricted	<u>8,752,413.05</u>	<u>2,244,699.62</u>	<u>10,997,112.67</u>
Total Net Assets	<u>\$22,231,834.94</u>	<u>\$3,008,451.11</u>	<u>\$25,240,286.05</u>

A portion of the County's net assets, \$9,343,713.88 (37 percent), is its investment in capital assets (i.e. land, buildings, vehicles, equipment, and infrastructure), net of any related debt used to acquire those assets that is still outstanding. The County used these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the County's assets, \$4,899,459.50 (19 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets*, \$10,997,112.67 (44 percent), may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year the County is able to report positive balances in all three categories (invested in capital assets-net of related debt, restricted and unrestricted) of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

Mason County's Changes in Net Assets

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<u>Revenues</u>	<u>2003</u>	<u>2003</u>	<u>2003</u>
Program revenues:			
Charges for services	\$ 7,144,092.53	\$ 376,091.48	\$ 7,520,184.01
Operating grants and contributions	1,609,105.87	21,619.50	1,630,725.37
Capital grants and contributions	9,955.00	3,107,432.09	3,117,387.09
General revenues:			
Property taxes and special assessments	8,226,537.74	0.00	8,226,537.74
State shared revenue	524,894.58	0.00	524,894.58
Investment earnings	364,258.58	101,856.32	466,114.90
Other revenues	7,856,623.17	116,930.17	7,973,553.34
Transfers	933,950.00	(933,950.00)	0.00
Total revenues	<u>26,669,417.47</u>	<u>2,789,979.56</u>	<u>29,459,397.03</u>
Expenses			
Legislative	270,707.60	0.00	270,707.60
Judicial	1,519,741.91	0.00	1,519,741.91
General government administration	2,959,728.02	0.00	2,959,728.02
Public safety	4,032,986.95	0.00	4,032,986.95
Public works	33,908.08	0.00	33,908.08
Health and welfare	13,808,013.43	0.00	13,808,013.43
Parks, recreation, and cultural	817,816.08	0.00	817,816.08
Miscellaneous	238,559.84	0.00	238,559.84
Interest on long-term debt	248,512.73	0.00	248,512.73
Delinquent tax collections and other Business-type activities	0.00	3,236,233.07	3,236,233.07
Total Expenses	<u>23,929,974.64</u>	<u>3,236,233.07</u>	<u>27,166,207.71</u>
Increase in net assets	2,739,442.83	(446,253.51)	2,293,189.32
Net assets, beginning of year	19,495,670.16	2,835,780.67	22,331,450.83
Prior Period adjustment	(3,278.05)	618,923.95	615,645.90
Total Net Assets, end of year	<u>\$22,231,834.94</u>	<u>\$3,008,451.11</u>	<u>\$25,240,286.05</u>

The County's net assets increased by \$2,293,189.32 during the current fiscal year - \$2,739,442.83 increase for governmental activities and a \$446,253.51 decrease for business-type activities.

Governmental activities. Governmental activities increased the County's net assets by \$2,739,442.83 accounting for all of the growth in the net assets of the County. Key elements of this increase are as follows

- Property taxes increased by \$672,887.48 (approximately 9 percent) during the year. This increase is the product of increased taxable values and residential growth.
- The increase in governmental net assets reflects transfer from the Delinquent Tax Fund of \$1,000,000.00 for the prepayment of Building Authority Bonds and \$88,000.00 to the Public Improvement Fund.
- Remaining contributions came from other funds including the Medical Care Facility, Child Care, Landfill Perpetual Care, Equipment Replacement, and Jail Construction.

Business-type activities. Net assets of the County's business-type activities decreased \$446,253.51. This decrease in net assets reflects the above-mentioned transfer from the Delinquent Tax Fund transfers of \$1,000,000.00 for the prepayment of Building Authority Bonds and \$88,000.00 to the Public Improvement Fund for the courthouse renovation project. Decreased interest earnings also affect this decrease in net assets.

As noted earlier, Mason County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the County's *governmental funds* is to provide information on near-term inflows, outflows and balances of *spendable* resources. Such information is useful in assessing the County's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the year.

As of the end of the year ended December 31, 2003, the County's governmental funds reported combined ending fund balances of \$11,212,187.42 a decrease of \$691,163.89 comparison with the prior year. Of the fund balance amount, \$8,658,555.80 constitutes *unreserved fund balance*, which is available for spending at the government's discretion.

The general fund is the chief operating fund of the County. At the end of the year ended December 31, 2003, unreserved fund balance of the general fund was \$1,339,277.87, while total fund balance with \$1,442,428.15.

As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 16 percent of the total general fund expenditures.

The fund balance of the County's general fund increased by \$95,750.36 during the current fiscal year. This is primarily attributable to charges for services in the Courts and Register of Deeds being higher than the estimated amount and several departments keeping their expenditures under budgeted amounts.

The financial position of the Building Authority Operations Fund decreased by \$206,383.80 due to the prepayment of Building Authority Bonds.

The financial position of the 911 Construction Fund decreased by \$1,206,091.41 due to the completion of the new 911 Center building.

Proprietary funds. The County's proprietary funds provide the same type of information in the government-wide financial statements, but in more detail.

Unrestricted net assets of the delinquent tax revolving, airport, public works operation and maintenance, and park operations funds at the end of the year amounted to \$1,386,920.62, \$459,459.64, \$1,141,808.94, and \$20,262.01. Construction in progress of a regional sewer project with the use of grant and bond proceeds from U.S. Rural Development resulted in the increased activity in the public works operation and maintenance fund. Other factors concerning the finances of the delinquent tax fund have already been addressed in the discussion of the County's business-type activities.

General Fund Budgetary Highlights

Revenues in the general fund (including transfers in) increased by \$123,000.00 from the original to the final budget. This increase is primarily attributable charges for services in the Courts and Register of Deeds being higher than the original budgeted amount and a transfer in from the MSU Extension Fund that was not in the original budget.

The revised budget was also supported by net expenditure savings of \$353,223 as a result of expenditure savings in several departments including contingency.

Expenditure savings and additional revenue provided the funds to support year end general fund appropriations of \$395,923.00 to the Public Improvement Fund to be used in the construction of a new Health Department Building in 2004-05 and \$15,000 to the Employee Vacation and Sick Leave Fund. Most of expenditure budget overruns consisted of court legal costs, radio and electronics purchases, and medical examiner costs.

Capital Asset and Debt Administration

Capital Assets. As of December 31, 2003, the County's investment in capital assets for its governmental activities amounted to \$15,192,042.44 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, vehicles, equipment, and infrastructure. The total increase in the County's investment in capital assets for the current fiscal year was 11 percent. The County's business-type activities' capital assets increased by \$245,543.38.

Major capital asset events during the current fiscal year included the following:

- * Construction of the new 911 Center building project of \$1,878,502.34.
- * Purchase of land for the proposed Health Department Building project of \$160,000.00.
- * Construction is process on the regional sewer project of \$313,862.18.

Mason County's Capital Assets

	<u>Governmental</u>	<u>Activities</u>
	<u>2003</u>	<u>2002</u>
Land and Improvements	\$ 462,137.69	\$ 302,137.69
Buildings and Improvements	17,648,917.08	15,770,414.74
Equipment and Vehicles	2,298,215.56	2,110,766.07
Subtotal	20,409,270.33	18,183,318.50
Less: Accumulated Depreciation	(5,217,227.89)	(4,461,938.32)
Total	<u>\$15,192,042.44</u>	<u>\$13,721,380.18</u>

Long-term debt. At the end of the year ended December 31, 2003, the County had total bonded debt outstanding of \$9,015,000.00. Governmental fund debt accounts for \$3,715,000.00 and business-type debt accounts for \$5,300,000.00 of the total bonded debt outstanding.

Mason County's Outstanding Debt

	<u>Governmental</u>	<u>Activities</u>	<u>Business-type</u>	<u>Activities</u>	<u>Total</u>	<u>Total</u>
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
General Obligation Bonds	\$3,715,000.00	\$5,490,000.00	\$ 0.00	\$ 0.00	\$3,715,000.00	\$5,490,000.00
Enterprise Funds Bonds	0.00	0.00	5,300,000.00	1,325,000.00	5,300,000.00	1,325,000.00
Total	<u>\$3,715,000.00</u>	<u>\$5,490,000.00</u>	<u>\$5,300,000.00</u>	<u>\$1,325,000.00</u>	<u>\$9,015,000.00</u>	<u>\$6,815,000.00</u>

The County's total debt increased by \$2,200,000.00 (32 percent) during the year ended December 31, 2003. The County retired \$1,800,000.00 in general obligation bonds during 2003.

The only new borrowing during the year was \$4,000,000.00 in sewer bonds for business-type activities. Debt requirements for general obligation bonds of \$375,000.00 and interest of \$145,177.50 are payable during 2004. Debt requirements for business-type bonds of \$25,000.00 and interest of \$245,675.00 are payable during 2004.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation (i.e., State Equalized Value). The current debt limitation for the County is \$145,548,185, which is significantly in excess of the County's outstanding general obligation debt.

Economic Factors and next Year's Budgets and Rates

The following factors were considering in preparing the County's budget for 2004:

- * The uncertainty over the State's economy will likely result in additional cuts in state funding.
- * Continued growth in new construction will generate increased property tax revenue to help cover cost increases.
- * Healthcare costs will continue to increase at a rate higher than inflation and will require new measures to contain cost increases.
- * Weak investment earnings will continue to negatively impact retirement funds resulting in increases in retirement costs.

Contacting the County Administrator

This financial report is designed to provide a general overview of the County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Mason County Administrator, 304 E. Ludington Avenue, Ludington, MI 49431.

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COMBINED STATEMENTS - OVERVIEW

The Combined Statements provide a summary overview of the financial position of all funds and account groups and of the operating results of all funds. They also serve as an introduction to the more detailed statements and schedules that follow.

MASON COUNTY, MICHIGAN
STATEMENT OF NET ASSETS
DECEMBER 31, 2003

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS	COMPONENT UNITS
ASSETS				
Current assets				
Cash and cash equivalents	\$ 5,705,245.12	\$ 790,831.68	\$ 6,496,076.80	\$ 2,139,618.56
Investments	7,587,908.22	890,853.74	8,478,761.96	218,106.00
Receivalbes				
Property taxes	8,589,769.94	771,135.84	9,360,905.78	0.00
Accounts (net of allowance for doubtful accounts)	164,907.77	1,826.98	166,734.75	27,979.00
Special assessments	0.00	0.00	0.00	54,893.54
Other	85,692.42	11,862.55	97,554.97	55.04
Due from other governmental units				
Federal/State	480,103.06	37,700.00	517,803.06	705,409.00
Local	91,727.75	322,716.76	414,444.51	55,244.00
Due from other funds	1,208,710.51	0.00	1,208,710.51	150,849.80
Inventories	0.00	0.00	0.00	350,307.00
Deposits	287,116.89	0.00	287,116.89	0.00
Prepayments	172,063.46	5,862.69	177,926.15	0.00
TOTAL CURRENT ASSETS	24,373,245.14	2,832,790.24	27,206,035.38	3,702,461.94
Noncurrent assets				
Lease receivale	0.00	4,061,137.82	4,061,137.82	0.00
Advances to other funds	23,273.76	0.00	23,273.76	0.00
Fixed assets (net of accumulated depreciation)	15,192,042.44	2,002,613.67	17,194,656.11	4,038,206.55
TOTAL NONCURRENT ASSETS	15,215,316.20	6,063,751.49	21,279,067.69	4,038,206.55
TOTAL ASSETS	\$ 39,588,561.34	\$ 8,896,541.73	\$ 48,485,103.07	\$ 7,740,668.49

The accompanying notes to financial statements are an integral part of these financial statements.

MASON COUNTY, MICHIGAN
STATEMENT OF NET ASSETS - Concluded
DECEMBER 31, 2003

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS	COMPONENT UNITS
LIABILITIES				
Current liabilities				
Accounts payable	\$ 492,878.52	\$ 373,198.85	\$ 866,077.37	\$ 229,742.99
Accrued liabilities	421,055.90	951.67	422,007.57	77,465.00
Accrued interest	46,859.59	0.00	46,859.59	0.00
Due to individuals/agencies	46,014.53	5,381.28	51,395.81	0.00
Due to other governmental units				
Federal/State	81,000.00	11,474.63	92,474.63	0.00
Local	0.00	5,068.35	5,068.35	183,282.00
Due to other funds	1,113,927.46	168,742.08	1,282,669.54	36,172.18
Deferred revenue	8,589,769.94	0.00	8,589,769.94	2,041,893.54
Bonds and notes payable	380,070.04	25,000.00	405,070.04	200,220.00
TOTAL CURRENT LIABILITIES	11,171,575.98	589,816.86	11,761,392.84	2,768,775.71
Noncurrent liabilities				
General obligation bonds and notes payable	3,425,521.20	5,275,000.00	8,700,521.20	0.00
Accrued post closure	2,279,954.00	0.00	2,279,954.00	317,240.00
Compensated absences	479,675.22	0.00	479,675.22	253,349.00
Advances from other funds	0.00	23,273.76	23,273.76	0.00
TOTAL NONCURRENT LIABILITIES	6,185,150.42	5,298,273.76	11,483,424.18	570,589.00
	17,356,726.40	5,888,090.62	23,244,817.02	3,339,364.71
NET ASSETS				
Investment in capital assets, net of related debt	8,579,962.39	763,751.49	9,343,713.88	3,838,661.55
Restricted	4,757,131.78	0.00	4,757,131.78	362,584.00
Unrestricted				
Reserved	142,327.72	0.00	142,327.72	0.00
Unreserved	8,752,413.05	2,244,699.62	10,997,112.67	200,058.23
TOTAL NET ASSETS	22,231,834.94	3,008,451.11	25,240,286.05	4,401,303.78
TOTAL LIABILITIES AND NET ASSETS	\$ 39,588,561.34	\$ 8,896,541.73	\$ 48,485,103.07	\$ 7,740,668.49

The accompanying notes to financial statements are an integral part of these financial statements.

MASON COUNTY, MICHIGAN
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2003

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES	
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS
PRIMARY GOVERNMENT			
Governmental activities:			
Legislative	\$ 270,707.60	\$ 0.00	\$ 0.00
Judicial	1,519,741.91	422,257.09	768,309.72
General government administration	2,959,728.02	779,356.77	100,652.10
Public safety	4,032,986.95	468,276.15	300,166.33
Public works	33,908.08	0.00	0.00
Health and social services	13,808,013.43	5,296,784.23	439,977.72
Parks, recreation, and cultural	817,816.08	177,418.29	0.00
Miscellaneous	238,559.84	0.00	0.00
Debt Service			
Interest and fiscal charges	248,512.73	0.00	0.00
TOTAL GOVERNMENTAL ACTIVITIES	23,929,974.64	7,144,092.53	1,609,105.87
Business-type activities			
Parks Operations	48,297.74	30,448.00	21,619.50
Public Works Operations & Maintenance	2,879,905.71	74,795.88	0.00
Airport Operations	299,576.41	15,773.80	0.00
Delinquent tax collections	8,453.21	255,073.80	0.00
TOTAL BUSINESS-TYPE ACTIVITIES	3,236,233.07	376,091.48	21,619.50
TOTAL PRIMARY GOVERNMENT	27,166,207.71	7,520,184.01	1,630,725.37
COMPONENT UNITS			
Drainage districts	115,616.16	804.01	0.00
Road commission	3,553,046.00	778,289.00	4,646,596.00
TOTAL COMPONENT UNITS	\$ 3,668,662.16	\$ 779,093.01	\$ 4,646,596.00

General Revenues:

Taxes:

Property tax and special assessments

Internal service fund activity

State shared revenue

Unrestricted investment earnings

Gain on sale of capital assets

Other revenues

Transfers:

Transfers

Transfers from internal service activities

Total General Revenues and Transfers

Change in Net Assets

Net assets - January 1

Special item - prior period adjustments

Net assets - December 31

The accompanying notes to financial statements are an integral part of these financial statements.

NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS

PROGRAM REVENUES CAPITAL GRANTS AND CONTRIBUTIONS	PRIMARY GOVERNMENT				COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS- TYPE ACTIVITIES	TOTALS		
\$ 0.00	\$ (270,707.60)	\$ 0.00	\$ (270,707.60)	\$	0.00
0.00	(329,175.10)	0.00	(329,175.10)		0.00
0.00	(2,079,719.15)	0.00	(2,079,719.15)		0.00
9,955.00	(3,254,589.47)	0.00	(3,254,589.47)		0.00
0.00	(33,908.08)	0.00	(33,908.08)		0.00
0.00	(8,071,251.48)	0.00	(8,071,251.48)		0.00
0.00	(640,397.79)	0.00	(640,397.79)		0.00
0.00	(238,559.84)	0.00	(238,559.84)		0.00
0.00	(248,512.73)	0.00	(248,512.73)		0.00
9,955.00	(15,166,821.24)	0.00	(15,166,821.24)		0.00
0.00	0.00	3,769.76	3,769.76		0.00
3,107,432.09	0.00	302,322.26	302,322.26		0.00
0.00	0.00	(283,802.61)	(283,802.61)		0.00
0.00	0.00	246,620.59	246,620.59		0.00
3,107,432.09	0.00	268,910.00	268,910.00		0.00
3,117,387.09	(15,166,821.24)	268,910.00	(14,897,911.24)		0.00
0.00	0.00	0.00	0.00		(114,812.15)
0.00	0.00	0.00	0.00		1,871,839.00
\$ 0.00	0.00	0.00	0.00		1,757,026.85
	\$ 8,226,537.74	\$ 0.00	\$ 8,226,537.74	\$	65,136.80
	(34,316.78)	0.00	(34,316.78)		0.00
	524,894.58	0.00	524,894.58		0.00
	364,258.58	101,856.32	466,114.90		15,655.28
	0.00	0.00	0.00		11,633.00
	7,890,939.95	116,930.17	8,007,870.12		3,085.00
	724,538.83	(933,950.00)	(209,411.17)		0.00
	209,411.17	0.00	209,411.17		0.00
	17,906,264.07	(715,163.51)	17,191,100.56		95,510.08
	2,739,442.83	(446,253.51)	2,293,189.32		1,852,536.93
	19,495,670.16	2,835,780.67	22,331,450.83		2,548,766.85
	(3,278.05)	618,923.95	615,645.90		0.00
	\$ 22,231,834.94	\$ 3,008,451.11	\$ 25,240,286.05	\$	4,401,303.78

MASON COUNTY, MICHIGAN
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2003

	GENERAL	MEDICAL CARE FACILITY	GOVERN- MENTAL OTHER	TOTAL GOVERN- MENTAL FUNDS
ASSETS				
Cash and cash equivalents	\$ 670,787.58	\$ 1,221,144.16	\$ 3,300,781.42	\$ 5,192,713.16
Investments	1,262,231.63	84,232.33	4,563,192.47	5,909,656.43
Receivables				
Property taxes	5,889,171.04	1,001,259.29	1,699,339.61	8,589,769.94
Accounts (net of allowance for doubtful accounts)	30,495.74	112,377.71	22,034.32	164,907.77
Other	1,937.41	2,229.77	55,010.54	59,177.72
Advances to other funds	14,581.13	0.00	8,692.63	23,273.76
Due from state and federal government	329,947.04	0.00	148,656.02	478,603.06
Due from other units	0.00	0.00	91,727.75	91,727.75
Due from other funds	270,007.24	50,549.55	837,584.78	1,158,141.57
Prepaid expenditures	88,569.15	0.00	32,906.39	121,475.54
TOTAL ASSETS	\$ 8,557,727.96	\$ 2,471,792.81	\$ 10,759,925.93	\$ 21,789,446.70
LIABILITIES AND EQUITY				
Liabilities				
Accounts payable	\$ 133,117.82	\$ 152,329.06	\$ 144,561.75	\$ 430,008.63
Accrued liabilities	80,348.65	190,270.55	45,919.52	316,538.72
Due to other governmental units				
Federal/State	0.00	0.00	81,000.00	81,000.00
Due to other funds	1,012,662.30	0.00	101,265.16	1,113,927.46
Due to individuals		14,866.98	31,147.55	46,014.53
Deferred revenue	5,889,171.04	1,001,259.29	1,699,339.61	8,589,769.94
TOTAL LIABILITIES	7,115,299.81	1,358,725.88	2,103,233.59	10,577,259.28
Equity				
Fund balances				
Reserved for post closure	0.00	0.00	1,844,650.63	1,844,650.63
Reserved for pre-paid items	88,569.15	0.00	30,484.81	119,053.96
Reserved for advances	14,581.13	0.00	8,692.63	23,273.76
Reserved for employee benefits	0.00	0.00	566,653.27	566,653.27
Unreserved	1,339,277.87	1,113,066.93	6,206,211.00	8,658,555.80
TOTAL EQUITY	1,442,428.15	1,113,066.93	8,656,692.34	11,212,187.42
TOTAL LIABILITIES AND EQUITY	\$ 8,557,727.96	\$ 2,471,792.81	\$ 10,759,925.93	\$ 21,789,446.70

The accompanying notes to financial statements are an integral part of these financial statements.

MASON COUNTY, MICHIGAN
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
DECEMBER 31, 2003

Total fund balances for governmental funds	\$ 11,212,187.42
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Land and land improvements	\$ 462,137.69	
Buildings and improvements	17,648,917.08	
Vehicles and equipment	2,298,215.56	
Accumulated Depreciation	<u>(5,217,227.89)</u>	15,192,042.44

Internal service funds are used by management to charge costs of certain activities, such as insurance, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets.

Less: net capital assets included above	\$ 2,503,232.51	
	<u>(63,547.38)</u>	2,439,685.13

Accrued vacation and sick time earned by eligible employees is not payable in the current period and therefore is not reported in the funds. However, these amounts are included in the Statement of Net Assets.

(479,675.22)

Accrued post closure care for landfills is not payable in the current period and therefore is not reported in the funds. However, these amounts are included in the Statement of Net Assets

(2,279,954.00)

Long-term bonded debt is not due and payable in the current period and therefore not reported in the funds. Unamortized premiums, loss on refundings, and interest payable are not reported in the funds. However, these amounts are included in the Statement of Net Assets. This is the net effect of these balances on the statement.

Bonds and notes payable	(3,805,591.24)	
Accrued interest payable	<u>(46,859.59)</u>	<u>(3,852,450.83)</u>

Net assets of governmental activities	\$ <u><u>22,231,834.94</u></u>
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The accompanying notes to financial statements are an integral part of these financial statements.

MASON COUNTY, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
DECEMBER 31, 2003

	GENERAL	MEDICAL CARE FACILITY	OTHER GOVERN- MENTAL FUNDS	TOTAL GOVERN- MENTAL FUNDS
REVENUES				
General property taxes	\$ 5,638,172.76	\$ 977,692.17	\$ 1,610,672.81	\$ 8,226,537.74
Special assessments	0.00	0.00	0.00	0.00
Permits and regulatory licenses	108,320.03	0.00	0.00	108,320.03
Intergovernmental				
Federal/State	1,518,400.92	7,794.44	596,260.09	2,122,455.45
Local	0.00	0.00	21,500.00	21,500.00
Charges for services	768,107.34	5,197,406.14	810,623.33	6,776,136.81
Fines and forfeitures	0.00	0.00	259,635.69	259,635.69
Interest and rents	115,341.60	17,957.84	1,521,010.20	1,654,309.64
Miscellaneous	162,340.62	6,326,976.60	111,571.67	6,600,888.89
TOTAL REVENUES	<u>8,310,683.27</u>	<u>12,527,827.19</u>	<u>4,931,273.79</u>	<u>25,769,784.25</u>
EXPENDITURES				
Current				
Legislative	267,704.54	0.00	0.00	267,704.54
Judicial	1,095,640.69	0.00	398,243.46	1,493,884.15
General government administration	1,874,894.53	0.00	1,042,122.09	2,917,016.62
Public safety	1,565,832.46	0.00	2,186,986.96	3,752,819.42
Public works	31,845.97	0.00	0.00	31,845.97
Health and social services	331,712.45	12,319,053.42	846,391.60	13,497,157.47
Parks, recreation, and cultural	0.00	0.00	732,212.01	732,212.01
Miscellaneous	11,040.62	0.00	58,876.46	69,917.08
Capital outlay	0.00	0.00	2,394,594.59	2,394,594.59
Debt service				
Principal retirement	0.00	0.00	1,779,822.39	1,779,822.39
Interest and fiscal charges	0.00	0.00	248,512.73	248,512.73
TOTAL EXPENDITURES	<u>5,178,671.26</u>	<u>12,319,053.42</u>	<u>9,687,762.29</u>	<u>27,185,486.97</u>
Excess (deficiency) of revenues over expenditures	<u>3,132,012.01</u>	<u>208,773.77</u>	<u>(4,756,488.50)</u>	<u>(1,415,702.72)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	17,762.35	0.00	4,056,205.21	4,073,967.56
Transfers out	<u>(3,054,024.00)</u>	<u>(118,000.00)</u>	<u>(177,404.73)</u>	<u>(3,349,428.73)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(3,036,261.65)</u>	<u>(118,000.00)</u>	<u>3,878,800.48</u>	<u>724,538.83</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing	95,750.36	90,773.77	(877,688.02)	(691,163.89)
FUND BALANCE, JANUARY 1	1,348,192.87	1,022,293.16	9,536,143.33	11,906,629.36
PRIOR PERIOD ADJUSTMENT	<u>(1,515.08)</u>	<u>0.00</u>	<u>(1,762.97)</u>	<u>(3,278.05)</u>
FUND BALANCE, DECEMBER 31	<u>\$ 1,442,428.15</u>	<u>\$ 1,113,066.93</u>	<u>\$ 8,656,692.34</u>	<u>\$ 11,212,187.42</u>

The accompanying notes to financial statements are an integral part of these financial statements.

MASON COUNTY, MICHIGAN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
DECEMBER 31, 2003

Net change in fund balance - total governmental funds \$ (691,163.89)

Amounts reported for governmental activities in the Statement of Activities
are different because:

Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the costs of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Land and land improvements	160,000.00	
Buildings and improvements	1,878,502.34	
Construction in progress	0.00	
Vehicles and equipment	187,449.49	
Depreciation expense	<u>(755,289.57)</u>	1,470,662.26

Internal service funds are used by management to charge costs of certain activities, such as insurance, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities in the Statement of Activities.

	175,094.39	
Add: depreciation expense included above	<u>5,027.68</u>	180,122.07

Bond proceeds provide current financial resources to the governmental funds by issuing debt which increases long-term bonded debt in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term bonded debt in the Statement of Net Assets. This is the amount proceeds exceed repayments.

Bond proceeds	0.00	
Repayment of bond principal	<u>1,779,822.39</u>	<u>1,779,822.39</u>

Changes in net assets of governmental activities \$ 2,739,442.83

The accompanying notes to financial statements are an integral part of these financial statements.

MASON COUNTY, MICHIGAN
MAJOR GOVERNMENTAL FUNDS - GENERAL AND SPECIAL REVENUE
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2003

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES				
Taxes	\$ 5,622,000.00	\$ 5,637,475.00	\$ 5,638,172.76	\$ 697.76
Permits and regulatory licenses	98,650.00	108,225.00	108,320.03	95.03
Intergovernmental				
Federal/State	1,518,375.00	1,509,525.00	1,518,400.92	8,875.92
Local	0.00	0.00	0.00	0.00
Charges for services	644,450.00	749,700.00	768,107.34	18,407.34
Fines and forfeitures	0.00	0.00	0.00	0.00
Interest and rents	124,000.00	107,550.00	115,341.60	7,791.60
Miscellaneous	169,525.00	169,525.00	162,340.62	(7,184.38)
TOTAL REVENUES	<u>8,177,000.00</u>	<u>8,282,000.00</u>	<u>8,310,683.27</u>	<u>28,683.27</u>
EXPENDITURES				
Current				
Legislative	278,000.00	274,500.00	267,704.54	6,795.46
Judicial	1,203,475.00	1,103,900.00	1,095,640.69	8,259.31
General government administration	1,994,800.00	1,903,450.00	1,874,894.53	28,555.47
Public safety	1,641,250.00	1,583,800.00	1,565,832.46	17,967.54
Public works	39,500.00	33,800.00	31,845.97	1,954.03
Health and social services	343,599.00	333,951.00	331,712.45	2,238.55
Parks, recreation, and cultural	1,000.00	300.00	0.00	300.00
Miscellaneous	97,575.00	12,275.00	11,040.62	1,234.38
Capital outlay	0.00	0.00	0.00	0.00
TOTAL EXPENDITURES	<u>5,599,199.00</u>	<u>5,245,976.00</u>	<u>5,178,671.26</u>	<u>67,304.74</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>2,577,801.00</u>	<u>3,036,024.00</u>	<u>3,132,012.01</u>	<u>95,988.01</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	0.00	18,000.00	17,762.35	(237.65)
Transfers (out)	(2,577,801.00)	(3,054,024.00)	(3,054,024.00)	0.00
TOTAL OTHER FINANCING SOURCES (USES)	<u>(2,577,801.00)</u>	<u>(3,036,024.00)</u>	<u>(3,036,261.65)</u>	<u>(237.65)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES)	0.00	0.00	95,750.36	95,750.36
FUND BALANCE, JANUARY 1	1,348,192.87	1,348,192.87	1,348,192.87	0.00
PRIOR PERIOD ADJUSTMENTS	<u>0.00</u>	<u>0.00</u>	<u>(1,515.08)</u>	<u>(1,515.08)</u>
FUND BALANCE, DECEMBER 31	<u>\$ 1,348,192.87</u>	<u>\$ 1,348,192.87</u>	<u>\$ 1,442,428.15</u>	<u>\$ 94,235.28</u>

The accompanying notes to financial statements are an integral part of these financial statements.

MASON COUNTY, MICHIGAN
MAJOR GOVERNMENTAL FUNDS - GENERAL AND SPECIAL REVENUE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - BUDGET TO ACTUAL - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2003

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
<u>Medical Care Facility</u>				
REVENUES				
Property taxes	\$ 964,875.00	\$ 977,600.00	\$ 977,692.17	\$ 92.17
Intergovernmental - State	0.00	7,775.00	7,794.44	19.44
Charges for services	5,044,275.00	4,944,275.00	5,197,406.14	253,131.14
Interest and rental	25,000.00	20,150.00	17,957.84	(2,192.16)
Other	48,325.00	6,326,900.00	6,326,976.60	76.60
TOTAL REVENUES	<u>6,082,475.00</u>	<u>12,276,700.00</u>	<u>12,527,827.19</u>	<u>251,127.19</u>
EXPENDITURES				
Health and Welfare	<u>6,060,150.00</u>	<u>12,303,875.00</u>	<u>12,319,053.42</u>	<u>(15,178.42)</u>
TOTAL EXPENDITURES	<u>6,060,150.00</u>	<u>12,303,875.00</u>	<u>12,319,053.42</u>	<u>(15,178.42)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	22,325.00	(27,175.00)	208,773.77	235,948.77
OTHER FINANCING SOURCES (USES)				
Operating transfers (out)	<u>(100,000.00)</u>	<u>(158,000.00)</u>	<u>(118,000.00)</u>	<u>40,000.00</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(77,675.00)	(185,175.00)	90,773.77	275,948.77
FUND BALANCE, JANUARY 1	<u>978,700.00</u>	<u>1,022,293.16</u>	<u>1,022,293.16</u>	<u>0.00</u>
FUND BALANCE, DECEMBER 31	<u>\$ 901,025.00</u>	<u>\$ 837,118.16</u>	<u>\$ 1,113,066.93</u>	<u>\$ 275,948.77</u>

The accompanying notes to financial statements are an integral part of these financial statements.

MASON COUNTY, MICHIGAN
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
DECEMBER 31, 2003

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS	
	PUBLIC WORKS	AIRPORT
ASSETS		
Current assets		
Cash and cash equivalents	\$ 572,135.63	\$ 37,178.04
Investments	313,642.53	107,196.11
Cash - restricted	0.00	0.00
Receivables		
Property taxes	0.00	0.00
Accounts (net of allowance for doubtful accounts)	60.52	891.46
Leases receivable	4,061,137.82	
Other	8,092.57	99.56
Due from other governmental units		
Federal/State	37,700.00	0.00
Local	320,126.01	0.00
Due from other funds	0.00	0.00
Deposits	0.00	0.00
Prepayments	64.50	5,611.52
TOTAL CURRENT ASSETS	<u>5,312,959.58</u>	<u>150,976.69</u>
Noncurrent assets		
Sewer System	686,442.47	0.00
Construction in progress	313,862.18	0.00
Buildings	0.00	1,209,318.30
Equipment	0.00	289,073.00
Accumulated depreciation	(265,996.43)	(230,085.85)
NET NONCURRENT ASSETS	<u>734,308.22</u>	<u>1,268,305.45</u>
TOTAL ASSETS	<u>\$ 6,047,267.80</u>	<u>\$ 1,419,282.14</u>

The accompanying notes to financial statements are an integral part of these financial statements.

BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS		GOVERNMENTAL ACTIVITIES
OTHER ENTERPRISE FUNDS	TOTAL PROPRIETARY FUNDS	INTERNAL SERVICE FUNDS
\$ 181,518.01	\$ 790,831.68	\$ 512,531.96
470,015.10	890,853.74	1,678,251.79
0.00	0.00	0.00
771,135.84	771,135.84	0.00
875.00	1,826.98	0.00
0.00	4,061,137.82	
3,670.42	11,862.55	26,514.70
0.00	37,700.00	1,500.00
2,590.75	322,716.76	0.00
0.00	0.00	50,568.94
0.00	0.00	287,116.89
186.67	5,862.69	50,587.92
<u>1,429,991.79</u>	<u>6,893,928.06</u>	<u>2,607,072.20</u>
0.00	686,442.47	
0.00	313,862.18	
0.00	1,209,318.30	0.00
0.00	289,073.00	83,076.78
0.00	(496,082.28)	(19,529.40)
<u>0.00</u>	<u>2,002,613.67</u>	<u>63,547.38</u>
\$ <u><u>1,429,991.79</u></u>	\$ <u><u>8,896,541.73</u></u>	\$ <u><u>2,670,619.58</u></u>

MASON COUNTY, MICHIGAN
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS - Concluded
DECEMBER 31, 2003

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS	
	PUBLIC WORKS	AIRPORT
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable	\$ 361,716.78	\$ 10,597.17
Accrued liabilities	0.00	951.67
Due to other governmental units	0.00	0.00
Federal/State	0.00	0.00
Local	0.00	0.00
Payable from restricted assets - due to patients	0.00	0.00
Due to other funds	168,742.08	0.00
Due to individuals	0.00	0.00
Deferred revenue	0.00	0.00
Bonds payable	0.00	25,000.00
TOTAL CURRENT LIABILITIES	<u>530,458.86</u>	<u>36,548.84</u>
Noncurrent liabilities		
Bonds payable	4,375,000.00	900,000.00
Advances from other funds	0.00	23,273.76
TOTAL NONCURRENT LIABILITIES	<u>4,375,000.00</u>	<u>923,273.76</u>
TOTAL LIABILITIES	<u>4,905,458.86</u>	<u>959,822.60</u>
Net assets		
Invested in capital assets, net of related debt	420,446.04	343,305.45
Reserved	0.00	0.00
Unreserved	721,362.90	116,154.09
Total net assets	<u>1,141,808.94</u>	<u>459,459.54</u>
TOTAL LIABILITIES AND EQUITY	<u>\$ 6,047,267.80</u>	<u>\$ 1,419,282.14</u>

The accompanying notes to financial statements are an integral part of these financial statements.

BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS		GOVERNMENTAL ACTIVITIES
OTHER ENTERPRISE FUNDS	TOTAL PROPRIETARY FUNDS	INTERNAL SERVICE FUNDS
\$ 884.90	\$ 373,198.85	\$ 64,987.90
0.00	951.67	102,399.17
0.00	0.00	0.00
11,474.63	11,474.63	0.00
5,068.35	5,068.35	
0.00	0.00	0.00
0.00	168,742.08	0.00
5,381.28	5,381.28	
0.00	0.00	0.00
0.00	25,000.00	0.00
<u>22,809.16</u>	<u>589,816.86</u>	<u>167,387.07</u>
0.00	5,275,000.00	0.00
<u>0.00</u>	<u>23,273.76</u>	<u>0.00</u>
0.00	5,298,273.76	0.00
<u>22,809.16</u>	<u>5,888,090.62</u>	<u>167,387.07</u>
0.00	763,751.49	63,547.38
0.00	0.00	2,345,827.88
<u>1,407,182.63</u>	<u>2,244,699.62</u>	<u>93,857.25</u>
<u>1,407,182.63</u>	<u>3,008,451.11</u>	<u>2,503,232.51</u>
\$ <u><u>1,429,991.79</u></u>	\$ <u><u>8,896,541.73</u></u>	\$ <u><u>2,670,619.58</u></u>

MASON COUNTY, MICHIGAN
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS	
	PUBLIC WORKS	AIRPORT
OPERATING REVENUES		
Charges for services	\$ 74,795.88	\$ 15,773.80
Intergovernmental grants and contributions	3,107,432.09	0.00
Interest on taxes	0.00	0.00
Rentals	19,400.00	65,328.62
Other		
Administrative fees and penalties	0.00	0.00
Miscellaneous	2,743.86	24,283.11
TOTAL OPERATING REVENUES	<u>3,204,371.83</u>	<u>105,385.53</u>
OPERATING EXPENSES		
Personal services and fringe benefits	0.00	51,205.21
Utilities and Telephone	2,500.63	24,242.03
Contractual services	2,688,563.72	93,287.39
Repairs and Maintenance	0.00	18,172.53
Depreciation	17,161.06	51,157.81
Interest and fees	0.00	0.00
Other	171,680.30	61,511.44
TOTAL OPERATING EXPENSES	<u>2,879,905.71</u>	<u>299,576.41</u>
OPERATING INCOME (LOSS)	<u>324,466.12</u>	<u>(194,190.88)</u>
NONOPERATING REVENUES (EXPENSES)		
Interest on investments	17,079.52	4,367.06
INCOME (LOSS) BEFORE TRANSFERS	<u>341,545.64</u>	<u>(189,823.82)</u>
TRANSFERS IN (OUT)		
Transfers in	31,100.00	122,950.00
Transfers (out)	0.00	0.00
TOTAL TRANSFERS IN (OUT)	<u>31,100.00</u>	<u>122,950.00</u>
NET INCOME (LOSS)	372,645.64	(66,873.82)
NET ASSETS, JANUARY 1	331,556.20	345,016.55
PRIOR PERIOD ADJUSTMENTS	<u>437,607.10</u>	<u>181,316.81</u>
NET ASSETS, DECEMBER 31	<u>\$ 1,141,808.94</u>	<u>\$ 459,459.54</u>

The accompanying notes to financial statements are an integral part of these financial statements.

BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS		GOVERNMENTAL ACTIVITIES
OTHER ENTERPRISE FUNDS	TOTAL PROPRITARY FUNDS	INTERNAL SERVICE FUNDS
\$ 30,448.00	\$ 121,017.68	\$ 201,519.55
0.00	3,107,432.09	0.00
208,085.51	208,085.51	0.00
0.00	84,728.62	10,136.36
48,496.79	48,496.79	0.00
25,285.58	52,312.55	0.00
312,315.88	3,622,073.24	211,655.91
24,029.87	75,235.08	0.00
4,542.97	31,285.63	0.00
1,872.04	2,783,723.15	0.00
3,947.79	22,120.32	27,069.41
0.00	68,318.87	0.00
8,453.21	8,453.21	0.00
13,905.07	247,096.81	310,406.10
56,750.95	3,236,233.07	337,475.51
255,564.93	385,840.17	(125,819.60)
80,409.74	101,856.32	91,502.82
335,974.67	487,696.49	(34,316.78)
0.00	154,050.00	209,411.17
(1,088,000.00)	(1,088,000.00)	0.00
(1,088,000.00)	(933,950.00)	209,411.17
(752,025.33)	(446,253.51)	175,094.39
2,159,207.92	2,835,780.67	2,390,963.69
0.04	618,923.95	(62,825.57)
\$ 1,407,182.63	\$ 3,008,451.11	\$ 2,503,232.51

MASON COUNTY, MICHIGAN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
DECEMBER 31, 2003

	BUSINESS-TYPE ACTIVITIES	
	ENTERPRISE FUNDS	
	PUBLIC WORKS	AIRPORT
CASH FLOWS FROM OPERATING ACTIVITIES		
Delinquent tax collections	\$ 0.00	\$ 0.00
Delinquent tax disbursements	0.00	0.00
Payments from other funds	168,742.08	0.00
Payments to other funds	0.00	(6,573.55)
Contributions to other funds	0.00	0.00
Payments to benefit providers	0.00	(20,127.62)
Payments from customers	126,836.65	105,943.57
Payments to suppliers	(6,497,556.03)	(87,910.45)
Payments to employees	0.00	(31,097.63)
Other receipts (payments)	6,679,459.69	(109,406.58)
NET CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES	<u>477,482.39</u>	<u>(149,172.26)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Capital acquisitions	(313,862.18)	0.00
Bond proceeds	4,000,000.00	0.00
Lease receivable	(3,686,137.82)	0.00
Bond payments	0.00	(25,000.00)
NET CASH PROVIDED BY NONCAPITAL		
FINANCING ACTIVITIES	<u>0.00</u>	<u>(25,000.00)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Transfers in (out)	<u>31,100.00</u>	<u>122,950.00</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase / maturity of investments	<u>(6,836.73)</u>	<u>(3,388.15)</u>
NET INCREASE (DECREASE) IN CASH	501,745.66	(54,610.41)
CASH AND CASH EQUIVALENTS, JANUARY 1	<u>70,389.97</u>	<u>91,788.45</u>
CASH AND CASH EQUIVALENTS, DECEMBER 31	<u><u>\$ 572,135.63</u></u>	<u><u>\$ 37,178.04</u></u>

The accompanying notes to financial statements are an integral part of these financial statements.

BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS		GOVERNMENTAL ACTIVITIES
OTHER ENTERPRISE FUNDS	TOTAL PROPRITARY FUNDS	INTERNAL SERVICE FUNDS
\$ 3,923,733.44	\$ 3,923,733.44	\$ 0.00
(3,932,514.65)	(3,932,514.65)	0.00
2,423,424.58	2,592,166.66	0.00
(2,383,583.35)	(2,390,156.90)	(50,568.94)
0.00	0.00	102,429.36
(1,716.17)	(21,843.79)	(151,076.05)
30,633.51	263,413.73	120,279.76
(23,731.71)	(6,609,198.19)	(259,221.17)
(23,051.12)	(54,148.75)	(116,543.78)
327,893.48	6,897,946.59	69,866.48
<u>341,088.01</u>	<u>669,398.14</u>	<u>(284,834.34)</u>
0.00	(313,862.18)	209,411.17
0.00	4,000,000.00	0.00
0.00	(3,686,137.82)	
<u>0.00</u>	<u>(25,000.00)</u>	<u>0.00</u>
0.00	(25,000.00)	209,411.17
<u>(1,088,000.00)</u>	<u>(933,950.00)</u>	<u>0.00</u>
<u>(201,401.08)</u>	<u>(211,625.96)</u>	<u>69,537.52</u>
(948,313.07)	(501,177.82)	(5,885.65)
1,129,831.08	1,292,009.50	518,417.61
\$ <u><u>181,518.01</u></u>	\$ <u><u>790,831.68</u></u>	\$ <u><u>512,531.96</u></u>

MASON COUNTY, MICHIGAN
STATEMENT OF CASH FLOWS - Concluded
PROPRIETARY FUNDS
DECEMBER 31, 2003

	BUSINESS-TYPE ACTIVITIES	
	ENTERPRISE FUNDS	
	PUBLIC WORKS	AIRPORT
Reconciliation of operating income (loss) to net cash provided (used in) by operating activities:		
Operating income	\$ <u>341,545.64</u>	\$ <u>(189,823.82)</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	17,161.06	51,157.81
Prior period Adjustment	0.00	0.00
Change in assets and liabilities:		
Decrease (Increase) in taxes receivables	0.00	0.00
Decrease (Increase) in other receivables	(3,787.93)	624.38
(Increase) in due from other governmental units - Federal	(37,700.00)	0.00
Decrease (Increase) in due from other units	8,162.08	0.00
(Increase) Decrease in prepayments	(6.00)	(71.08)
(Increase) in advance from other funds	0.00	0.00
(Increase) in due from other funds	0.00	0.00
(Increase) in other assets	0.00	0.00
(Decrease) in accounts payable	311,653.55	(4,640.20)
Increase (Decrease) in advance to other funds	0.00	(6,573.55)
Increase (Decrease) in due to other funds	(159,546.01)	0.00
(Decrease) in due to other governmental units	0.00	0.00
Increase (Decrease) in other liabilities	<u>0.00</u>	<u>154.20</u>
Total adjustments	<u>135,936.75</u>	<u>40,651.56</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ <u><u>477,482.39</u></u>	\$ <u><u>(149,172.26)</u></u>

The accompanying notes to financial statements are an integral part of these financial statements.

BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS		GOVERNMENTAL ACTIVITIES
OTHER ENTERPRISE FUNDS	TOTAL PROPRITARY FUNDS	INTERNAL SERVICE FUNDS
\$ 335,974.67	\$ 487,696.49	\$ (34,316.78)
0.00	68,318.87	5,992.25
0.00	0.00	(62,825.57)
5,246.79	5,246.79	0.00
833.21	(2,330.34)	(6,612.67)
0.00	(37,700.00)	0.00
5,914.57	14,076.65	(1,500.00)
(16.00)	(93.08)	(41,255.34)
682,340.15	682,340.15	(50,568.94)
0.00	0.00	0.00
0.00	0.00	(3,716.69)
(237.22)	306,776.13	60,442.84
(642,498.92)	(649,072.47)	0.00
0.00	(159,546.01)	0.00
(46,369.24)	(46,369.24)	0.00
(100.00)	54.20	(150,473.44)
5,113.34	181,701.65	(250,517.56)
\$ 341,088.01	\$ 669,398.14	\$ (284,834.34)

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MASON COUNTY, MICHIGAN
STATEMENT OF NET ASSETS - FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003

ASSETS	
Cash and cash equivalents	\$ 736,159.40
Investments	0.00
Investments with agent	0.00
Due from other funds	0.00
TOTAL ASSETS	\$ 736,159.40
LIABILITIES AND NET ASSETS	
Liabilities	
Bonds payable	\$ 176,957.50
Resititution payable	22,012.38
Undistributed taxes	337,462.81
Due to other units	5,950.80
Other current liabilities	36,782.66
Undistributed penal fines	71.97
Due to State of Michigan	116,237.69
Due to federal government	(35.00)
Due to other funds	40,718.59
TOTAL LIABILITIES	736,159.40
NET ASSETS	
Net assets	
Reserved	0.00
Unreserved	
Designated for capital expenditures	0.00
Undesignated	0.00
TOTAL NET ASSETS	0.00
TOTAL LIABILITIES AND NET ASSETS	\$ 736,159.40

The accompanying notes to financial statements are an integral part of these financial statements.

MASON COUNTY, MICHIGAN
STATEMENT OF NET ASSETS
DISCRETELY PRESENTED COMPONENT UNITS
DECEMBER 31, 2003

	DRAIN	DRAIN REVOLVING
ASSETS		
Cash and cash equivalents	\$ 71,534.36	\$ 18,450.20
Investments	0.00	0.00
Receivables		
Special sssessments	54,893.54	0.00
Accounts (net of allowance for doubtful accounts)	0.00	0.00
Other	55.04	0.00
Due from other governmental units		
Federal/State	0.00	0.00
Local	0.00	0.00
Due from other funds	0.00	150,849.80
Inventories	0.00	0.00
Fixed assets (net of accumulated depreciation)	<u>1,086,896.55</u>	<u>0.00</u>
TOTAL ASSETS	\$ <u>1,213,379.49</u>	\$ <u>169,300.00</u>
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable	\$ 4,658.99	\$ 0.00
Accrued liabilities	0.00	0.00
Due to other funds	36,172.18	0.00
Due to other governmental units		
Other	0.00	0.00
Deferred revenue	54,893.54	0.00
Capital lease payable	<u>0.00</u>	<u>0.00</u>
	<u>95,724.71</u>	<u>0.00</u>
Noncurrent liabilities		
Bonds and notes payable	0.00	0.00
Accrued sick and vacation	<u>0.00</u>	<u>0.00</u>
TOTAL LIABILITIES	<u>0.00</u>	<u>0.00</u>
EQUITY		
Investment in capital assets, net of related debt	1,086,896.55	0.00
Fund balances		
Restricted for		
Primary/Local Roads	0.00	0.00
Unreserved		
Undesignated	<u>30,758.23</u>	<u>169,300.00</u>
TOTAL EQUITY	<u>1,117,654.78</u>	<u>169,300.00</u>
TOTAL LIABILITIES AND EQUITY	\$ <u>1,213,379.49</u>	\$ <u>169,300.00</u>

The accompanying notes to financial statements are an integral part of these financial statements.

ROAD COMMISSION	DRAIN DEBT SERVICE	TOTAL
\$ 2,049,634.00	\$ 0.00	\$ 2,139,618.56
218,106.00	0.00	218,106.00
0.00	0.00	54,893.54
27,979.00	0.00	27,979.00
0.00	0.00	55.04
705,409.00	0.00	705,409.00
55,244.00	0.00	55,244.00
0.00	0.00	150,849.80
350,307.00	0.00	350,307.00
2,951,310.00	0.00	4,038,206.55
<u>\$ 6,357,989.00</u>	<u>\$ 0.00</u>	<u>\$ 7,740,668.49</u>
\$ 225,084.00	\$ 0.00	\$ 229,742.99
77,465.00	0.00	77,465.00
0.00	0.00	36,172.18
183,282.00	0.00	183,282.00
1,987,000.00	0.00	2,041,893.54
200,220.00	0.00	200,220.00
<u>2,673,051.00</u>	<u>0.00</u>	<u>2,768,775.71</u>
317,240.00	0.00	317,240.00
253,349.00	0.00	253,349.00
<u>570,589.00</u>	<u>0.00</u>	<u>570,589.00</u>
2,751,765.00	0.00	3,838,661.55
362,584.00	0.00	362,584.00
0.00	0.00	200,058.23
<u>3,114,349.00</u>	<u>0.00</u>	<u>4,401,303.78</u>
<u>\$ 6,357,989.00</u>	<u>\$ 0.00</u>	<u>\$ 7,740,668.49</u>

MASON COUNTY, MICHIGAN
STATEMENT OF ACTIVITIES
DISCRETELY PRESENTED COMPONENT UNITS
DECEMBER 31, 2003

	EXPENSES	PROGRAM REVENUES <u>CHARGES</u> FOR SERVICES
REVENUES		
Drainage districts	\$ 115,616.16	\$ 804.01
Road commission	<u>3,553,046.00</u>	<u>778,289.00</u>
 TOTAL REVENUES	 <u><u>\$ 3,668,662.16</u></u>	 <u><u>\$ 779,093.01</u></u>

General revenues

Special assessments
Gain on sale of capital assets
Miscellaneous
Unrestricted investment earnings

Total general revenues and transfers

Change in net assets

Net assets - beginning

Net assets - ending

The accompanying notes to financial statements are an integral part of these financial statements.

PROGRAM REVENUES		NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	DRAINAGE DISTRICTS	ROAD COMMISSION	TOTAL
\$ 0.00	\$ 0.00	\$ (114,812.15)	\$ 0.00	\$ (114,812.15)
<u>4,646,596.00</u>	<u>0.00</u>	<u>0.00</u>	<u>1,871,839.00</u>	<u>1,871,839.00</u>
<u>\$ 4,646,596.00</u>	<u>\$ 0.00</u>	<u>(114,812.15)</u>	<u>1,871,839.00</u>	<u>1,757,026.85</u>
		65,136.80	0.00	65,136.80
		0.00	11,633.00	11,633.00
		0.00	3,085.00	3,085.00
		<u>756.28</u>	<u>14,899.00</u>	<u>15,655.28</u>
		<u>65,893.08</u>	<u>29,617.00</u>	<u>95,510.08</u>
		(48,919.07)	1,901,456.00	1,852,536.93
		<u>1,335,873.85</u>	<u>1,212,893.00</u>	<u>2,548,766.85</u>
		<u>\$ 1,286,954.78</u>	<u>\$ 3,114,349.00</u>	<u>\$ 4,401,303.78</u>

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MASON COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 1: DESCRIPTION OF COUNTY AND FUND TYPES

The County of Mason, Michigan, having over 25 miles of Lake Michigan shoreline, covers an area of approximately 540 square miles with its county seat located in the City of Ludington. The County operates under a ten member elected Board of Commissioners and provides services to its more than 28,000 residents in areas including law enforcement, administration of justice, community enrichment and development, and human services.

A. Reporting Entity

All funds and account groups under direct control of the County of Mason are included in this report.

The funds and account groups that have been included in this report are those that meet the criteria established by the Governmental Accounting Standards Board (GASB). Those criteria include the appointment of a voting majority of the governing body, legal entity, and fiscal independence or dependence.

Blended Component Units

In conformity with U.S. generally accepted accounting principles, the financial statements of component units have been included in the financial reporting entity as blended component units.

For financial reporting purposes, the following components are reported as if they were part of the County's operations:

Building Authority Debt - FIA, Building Authority Debt - Jail, and Building Authority Construction - Jail.

Discretely Presented Component Units

County Drain Funds - Each of the drainage districts are separate legal entities, with the power to contract, to sue, to hold, manage and dispose of real and personal property, etc. The full faith and credit of the County may be given for the debt of the drainage districts.

County Road Commission Fund - The Road Commission is governed by three appointees of the County's Board who are not County Board members. The Road Commission is responsible for the construction and maintenance of the County's system of roads and bridges and is principally funded by State-collected vehicle fuel and registration taxes under Public Act 51. The County has budgetary control and appropriation authority over its activities; however, such has not been exercised.

B. Measurement Focus, Basis of Accounting and Basis of Presentation

Under Governmental Accounting Standards Board's Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, the annual financial report will now include two separate sets of statements, the government-wide financial statements and the fund financial statements. The measurement focus, basis of accounting and basis of presentation differs between the government-wide financial statements and the fund financial statements. These differences, along with an explanation of the differing purposes and information provided by these separate financial statements, are described in the sections below.

MASON COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS - Continued
DECEMBER 31, 2003

NOTE 1: DESCRIPTION OF COUNTY AND FUND TYPE - Continued

B. Measurement Focus, Basis of Accounting and Basis of Presentation - Continued

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and statement of activities) report information on all of the nonfiduciary activity of the primary government and its component units using the *economic resources measurement focus* and the *accrual basis of accounting*. The economic resources measurement focus results in the reporting of all inflows, outflows, and balances affecting or reflecting the County's net assets. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this rule are changes between the County's various functions where elimination would distort the direct costs and program revenues reported for the various functions concerned.

Both the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The structure of these two statements is further described in the following two paragraphs.

Statement of Net Assets – This statement is designed to display the financial position of the County. The County reports all capital assets, including infrastructure, and all long-term liabilities, such as long-term debt. The net assets of the County are broken down into three categories, 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted. Restrictions shown are those imposed by parties outside the County, such as creditors, grantors, contributors, laws and regulations of other governments. When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed. Internal service funds have been consolidated into the government or business-type activities that they primarily benefit.

Statement of Activities – This statement demonstrates the degree to which the direct and indirect expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported as general revenues. Just as the statement of net assets includes all capital assets, the Statement of Activities includes all depreciation expenses. In the Statement of Activities, the operational internal service funds have been consolidated into the government or business-type activities that they primarily benefit.

MASON COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS - Continued
DECEMBER 31, 2003

NOTE 1: DESCRIPTION OF COUNTY AND FUND TYPE - Continued

B. Measurement Focus, Basis of Accounting and Basis of Presentation - Continued

Fund Financial Statements

The accounts of the County are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. All individual funds are considered major and are reported as separate columns in the fund financial statements.

As in the government-wide financial statements, as a general rule the effect of interfund activity has been eliminated from the fund financial statements. Exceptions to this general rule are charges between the County's various functions where elimination would distort the direct costs and program revenues reported for the various functions concerned.

The various funds are grouped, in the financial statements in this report, into seven generic fund types and three broad fund categories:

GOVERNMENTAL FUNDS

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. The current financial resources measurement focus results in the reporting of only near-term (current) inflows, outflows, and balances of expendable (spendable) financial resources. Under the modified accrual basis of accounting, revenues are recognized when they are susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined, and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Revenues are considered to be available if they are expected to be received within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for debt service expenditures, as well as expenditures related to compensated absences, claims and judgments, which are recorded when payment is due.

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: property taxes, investment earnings, and charges for services. Changes in the fair value of investments are recognized in interest revenues at the end of each year. Fines, forfeitures, licenses, and permit revenues are recorded when cash is received by the County because they are not generally measurable until actually received. Shared revenues are recorded at the time of receipt or earlier if susceptible to accrual criteria in which case they are recorded when those criteria are met. Expenditure-driven grants are recognized as revenue when qualifying expenditures have been incurred and all other grant requirements have been met.

General Fund - The General Fund is the general operating fund of the County. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

MASON COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS - Continued
DECEMBER 31, 2003

NOTE 1: DESCRIPTION OF COUNTY AND FUND TYPE - Concluded

B. Measurement Focus, Basis of Accounting and Basis of Presentation - Concluded

Capital Projects Funds - Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds and Trust Funds).

Debt Service Funds - Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

PROPRIETARY FUNDS

All proprietary and similar trust funds are accounted for using *economic resources measurement focus* and the *accrual basis of accounting*. The economic resources measurement focus results in the reporting of all inflows, outflows, and balances affecting or reflecting the fund net assets. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the cash flows. Proprietary funds distinguish operating revenues and expenses from nonoperating items.

Enterprise Funds - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Funds - Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the County, or to other governments, on a cost - reimbursement basis.

FIDUCIARY FUNDS

Trust and Agency Funds - Trust and Agency Funds are used to account for assets held by the County in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. These include only Agency Funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

C. General Fixed Assets and Long-Term Liabilities

Capital Assets, which include land, buildings, land improvements, equipment, vehicles and infrastructure assets are reported in the applicable governmental, business-type activity or component unit columns in the government-wide financial statements. The capitalization thresholds are \$5,000 for buildings, land improvements, equipment, and vehicles. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

MASON COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS - Continued
DECEMBER 31, 2003

NOTE 1: DESCRIPTION OF COUNTY AND FUND TYPE - Concluded

C. General Fixed Assets and Long-Term Liabilities - Concluded

Capital assets of governmental activities are depreciated or amortized using the straight-line method over the following estimated useful lives:

Buildings and Improvements	5-40 years
Equipment and Vehicles	3-20 years
Drains and land improvements	8-20 years
Sewer Systems	40 years

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable statement of net assets.

Depreciation of all exhaustible fixed assets used by Proprietary Funds is charged as an expense against their operations. Accumulated depreciation is reported on the Proprietary Fund balance sheets. The straight-line depreciation method is applied over the estimated useful lives of fixed assets held by Proprietary Funds. Estimated useful lives are:

Buildings and Improvements	5-40 years
Equipment and Vehicles	3-20 years
Drains and land improvements	8-20 years
Sewer Systems	40 years

Depreciation is computed on the sum-of-the-years-digits method for road equipment and straight-line method for all other fixed assets. The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides for recording depreciation in the Road Commission Fund as a charge to various expense accounts and a credit to a depreciation credits account. Accordingly, the annual depreciation expense does not affect the available operating equities of the Road Commission Fund.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

A. Budgets and Budgetary Accounting

The County follows these procedures in establishing the budgetary data reflected in the financial statements:

1. At the April board meeting, the County Finance Committee submits to the Board of Commissioners a proposed operating budget for the fiscal year beginning the following January 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is formally adopted by resolution at the October Board of Commissioners' meeting.
4. Any revision to the budget must be approved by the Board of Commissioners.
5. Formal budgetary integration is employed as a management control device for the General Fund, Special Revenue Funds and Debt Service Funds.

Budgeted amounts are as originally adopted or amended by the Board of Commissioners during the year. Individual amendments were not material in relation to the original appropriations which were amended. Budget appropriations lapse at year end.

MASON COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS - Continued
DECEMBER 31, 2003

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES - Concluded

B. Investments

Investments are stated at cost, which equals market.

C. Advances to other Funds

Noncurrent portions of long-term interfund loans receivable (reported in "Advance to" asset accounts) are equally offset by a fund balance reserve account which indicates that they do not constitute "available spendable resources" since they are not a component of net current assets.

D. Restricted Assets

Certain resources of the County's Post Closure Care Trust Fund are set aside for the payment of post-closure cost of the Mason County Landfill - Scottville site and are classified as restricted assets on the balance sheet because their use is limited by applicable Michigan Department of Environmental Quality rules.

E. Prepaid Assets

Certain insurance premiums and other expenditures representing costs applicable to future periods are recorded as prepaid assets. These prepaid assets recorded in the governmental fund types do not reflect current appropriable resources and, therefore, an equivalent portion of fund balance is reserved.

F. Accounting Period

All financial presentations are for December 31, 2003 or the year then ended.

G. Inventories

Road Commission inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations, as used.

H. Cash and Cash Investments

For the purposes of the statement of cash flows, the County considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash and cash investments.

NOTE 3: ACCUMULATED UNPAID VACATION, SICK PAY, AND OTHER EMPLOYEE BENEFIT AMOUNTS

Accumulated vacation and sick pay represents a contingent liability to the County which is not expected to be liquidated during the current year. Payments to employees for vacation and sick pay will be recorded as expenditures when the vacation and sick time is used and payments are actually made to the employees. Payments of accumulated vacation and sick pay benefits are also made to employees upon termination of employment. The County has accumulated sufficient funds in the Vacation and Sick Pay Trust Fund to provide payments of accumulated benefits to employees who terminate their employment. At December 31, 2003, the total accumulated vacation and sick pay liability was \$479,675.22.

County Road employee's earn vacation leave in varying amounts depending on the number of years of service. Unpaid vacation leave at December 31, 2003 amounted to \$55,145.00. Sick leave is accumulated at the rate of one day for each month of service with accumulation not to exceed 656 hours or 82 days. Unpaid sick leave at December 31, 2003 amounted to \$198,204.00. Upon termination of employment, vacation is payable at 100 percent of the accumulated balance. Sick leave is payable at 50 percent only upon death or retirement.

MASON COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS - Continued
DECEMBER 31, 2003

NOTE 4: EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN INDIVIDUAL FUNDS

P.A. 621 of 1978 provides that counties and other local units of government shall not incur expenditures in excess of the amounts appropriated in the formal budget document adopted by the County Board of Commissioners. For the year ended December 31, 2003, Mason County had formally adopted a budget for the General Fund, the Special Revenue Fund Types and the Debt Service Fund Types. The following General Fund departments' expenditures exceeded the amounts appropriated in the formal budget document as adopted by the County Board of Commissioners:

	BUDGET	ACTUAL	VARIANCE (UNFAVORABLE)
District Court Appointed Attorney	\$ 33,700.00	\$ 34,747.31	\$ (1,047.31)
Copy Machine and fax	26,000.00	26,080.32	(80.32)
County Maintenance	81,100.00	81,423.19	(323.19)
Contagious Disease	1,500.00	1,864.85	(364.85)

The following Special Revenue Fund and Debt Service Fund Types had expenditures and transfers that exceeded the budgets approved by the County Board of Commissioners:

Medical Care Facility	12,303,875.00	12,319,053.42	(15,178.42)
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The Road Commission follows the procedures in establishing the budgetary data reflected in the financial statements in accordance with the Uniform Budgeting and Accounting Act (Act No. 621, Public Act of 1978) as prescribed by the State of Michigan. Public Act 621 of 1978, section 18 (1), as amended, provides that a County Road Commission shall not incur expenditures in excess of amounts appropriated. As presented in the financial statements for the year ended December 31, 2003, the County Road Commission incurred expenditures which were in excess of the amounts appropriated as follows:

Expenditure Line Item	Total Appropriations	Amount of Expenditures	Budget Variance
Primary Road: Heavy Maintenance	\$ 49,717.00	\$ 140,852.00	\$ (91,135.00)
Local Road: Heavy Maintenance	642,278.00	1,585,441.00	(943,163.00)
Local Road: Maintenance	1,614,049.00	1,934,791.00	(320,742.00)
State Non-Maintenance	0.00	12,850.00	(12,850.00)
Administrative Expense - Net	217,836.00	227,440.00	(9,604.00)
Capital Outlay - Net	(193,000.00)	(162,797.00)	(30,203.00)
Long Term Debt Payments: Principal	38,250.00	39,006.00	(756.00)
Long Term Debt Payments: Interest	11,500.00	12,114.00	(614.00)

The budget was exceeded in total by \$1,024,695.00.

NOTE 5: PROPERTY TAXES

2003 property tax revenue includes property taxes levied principally on December 1, 2002 and substantially collected in early 2003. The "2002 property taxes" became a lien on December 1, 2002 and were collected by March 1, 2003 except for those taxes that were returned delinquent. The total 2003 levy for the County was \$5,889,171.04 for general operating purposes on a state equalized valuation at 5.1461 mills.

By agreement with various taxing authorities in the County, the County purchased at face value the real property taxes receivable which became delinquent on March 1, 2003. These taxes, which are recorded in an Enterprise Fund at December 31, 2003 are pledged for repayment of loans, the proceeds of which were used to purchase such amounts due to the General Fund and other local units of government. Subsequent collections by the County, plus interest, fees and investment earnings, are used to repay the loans. The 2003 property tax levy of \$5,889,171.04 based on 5.1461 mills less adjustments is reflected in the General Fund as property tax receivable and as deferred revenue.

MASON COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS - Continued
DECEMBER 31, 2003

NOTE 6: LITIGATION

There is no pending litigation against the County as of December 31, 2003.

NOTE 7: SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The County maintains four enterprise funds: Park Operation Fund, Airport Fund, Delinquent Taxes Fund and the Public Works Operation and Maintenance Fund. Segment information for the year ended December 31, 2003 was as follows:

	PUBLIC WORKS OPERATIONS AND MAINTENANCE	PARK OPERATION	AIRPORT	DELINQUENT TAXES	TOTAL
Total assets	\$6,047,267.80	\$ 21,146.91	\$1,419,282.14	\$1,408,844.88	\$8,896,541.73
Total liabilities	4,905,458.86	884.90	959,822.60	21,924.26	5,888,090.62
Net Assets	1,141,808.94	20,262.01	459,459.54	1,386,920.62	3,008,451.11
Operating revenue	3,204,371.83	30,448.00	105,385.53	281,867.88	3,622,073.24
Operating expenses	2,879,905.71	48,297.74	299,576.41	8,453.21	3,236,233.07
Operating income (loss)	324,466.12	(17,849.74)	(194,190.88)	273,414.67	385,840.17
Nonoperating revenue	17,079.52	21,771.92	4,367.06	58,637.82	101,856.32
Transfers in (out)	31,100.00	0.00	122,950.00	(1,088,000.00)	(933,950.00)
Change in net assets	372,645.64	3,922.18	(66,873.82)	(755,947.51)	(446,253.51)
Net assets - January 1, 2003	331,556.20	16,339.83	345,016.55	2,142,868.09	2,835,780.67
Prior period adjustment	437,607.10	0.00	181,316.81	0.04	618,923.95
Net assets - December 31, 2003	1,141,808.94	20,262.01	459,459.54	1,386,920.62	3,008,451.11
Net cash provided by:					
Operating activities	477,482.39	3,622.01	(149,172.26)	337,466.00	669,398.14
Noncapital financing activities	31,100.00	0.00	122,950.00	(1,088,000.00)	(933,950.00)
Capital and related financing activities	0.00	0.00	(25,000.00)	0.00	(25,000.00)
Investing activities	(6,836.73)	0.00	(3,388.15)	(201,401.08)	(211,625.96)
Net increase in cash and cash equivalents	501,745.66	3,622.01	(54,610.41)	(951,935.08)	(501,177.82)
Cash and cash equivalents - beginning	70,389.97	17,326.57	91,788.45	1,112,504.51	1,292,009.50
Cash and cash equivalents - ending	572,135.63	20,948.58	37,178.04	160,569.43	790,831.68

MASON COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS - Continued
DECEMBER 31, 2003

NOTE 8: RENTALS UNDER OPERATING LEASE

The County entered into an agreement with the State of Michigan to provide office space for the Family Independence Agency. The original lease is for a fifteen-year period beginning on December 23, 1996. The annual rental payment due from the State of Michigan for this lease is \$208,749.00 payable in monthly installments of \$17,395.75. The lease provides for an annual adjustment to reflect the actual cost of operations. The lease provides for the option of three five year lease renewals for a total possible lease period of thirty years.

The following is a schedule of future minimum rental revenues on operating leases as of December 31, 2003:

December 31, 2004	\$ 208,749.00
December 31, 2005	208,749.00
December 31, 2006	208,749.00
December 31, 2007	208,749.00
December 31, 2008	208,749.00
December 31, 2009	208,749.00
December 31, 2010	208,749.00
December 31, 2011	208,749.00
TOTAL	<u>\$1,669,992.00</u>

NOTE 9: LONG-TERM ADVANCES

The long-term interfund advances as of December 31, 2003 consisted of the following:

FUND	ADVANCE FROM	FUND	ADVANCE TO
General	\$ 14,581.13	Airport	\$ 23,273.76
Public Improvement	<u>8,692.63</u>		<u>0.00</u>
TOTAL	<u>\$ 23,273.76</u>	TOTAL	<u>\$ 23,273.76</u>

NOTE 10: FIXED ASSETS

The following schedule summarizes the changes in fixed assets for the year ending December 31, 2003:

	Balance January 1, 2003	Additions	Deductions	Balance December 31, 2003
GOVERNMENTAL ACTIVITIES:				
Internal Service Funds				
Equipment and vehicles	\$ 83,076.78	\$ 0.00	\$ 0.00	\$ 83,076.78
Less: Accumulated Depreciation	<u>(14,501.72)</u>	<u>(5,027.68)</u>	<u>0.00</u>	<u>(19,529.40)</u>
	<u>68,575.06</u>	<u>(5,027.68)</u>	<u>0.00</u>	<u>63,547.38</u>
Other governmental funds				
Land	\$ 152,638.75	\$ 160,000.00	\$ 0.00	\$ 312,638.75
Land Improvements	149,498.94	0.00	0.00	149,498.94
Buildings and improvements	15,770,414.74	1,878,502.34	0.00	17,648,917.08
Equipment and Vehicles	<u>2,027,689.29</u>	<u>187,449.49</u>	<u>0.00</u>	<u>2,215,138.78</u>
Subtotal	18,100,241.72	2,225,951.83	0.00	20,326,193.55
Less: Accumulated Depreciation	<u>(4,447,436.60)</u>	<u>(750,261.89)</u>	<u>0.00</u>	<u>(5,197,698.49)</u>
	<u>13,652,805.12</u>	<u>1,475,689.94</u>	<u>0.00</u>	<u>15,128,495.06</u>
Total	<u>\$ 13,721,380.18</u>	<u>\$1,470,662.26</u>	<u>\$ 0.00</u>	<u>\$ 15,192,042.44</u>

MASON COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS - Continued
DECEMBER 31, 2003

NOTE 10: FIXED ASSETS – Concluded

	Balance January 1, 2003	Additions	Deductions	Balance December 31, 2003
BUSINESS-TYPE ACTIVITIES				
Buildings and improvements	\$ 1,209,318.30	\$ 0.00	\$ 0.00	\$ 1,209,318.30
Sewer System	686,442.47	0.00	0.00	686,442.47
Construction in Progress	0.00	313,862.18	0.00	313,862.18
Equipment and Vehicles	289,073.00	0.00	0.00	289,073.00
Subtotal	2,184,833.77	313,862.18	0.00	2,498,695.95
Less: Accumulated Depreciation	(427,763.41)	(68,318.87)	0.00	(496,082.28)
Total	<u>\$ 1,757,070.36</u>	<u>\$ 245,543.31</u>	<u>\$ 0.00</u>	<u>\$ 2,002,613.67</u>
Component Unit – Drainage Districts:				
Land	\$ 9,800.00	\$ 0.00	\$ 0.00	\$ 9,800.00
Infrastructure	2,042,768.15	0.00	0.00	2,042,768.15
Subtotal	2,052,568.15	0.00	0.00	2,052,568.15
Less: Accumulated Depreciation	(864,107.26)	(101,564.34)	0.00	(965,671.60)
Subtotal	<u>1,188,460.89</u>	<u>(101,564.34)</u>	<u>0.00</u>	<u>1,086,896.55</u>
Component Unit – Road Commission:				
Land and Improvements	\$ 109,875.00	\$ 500.00	\$ 0.00	\$ 110,375.00
Infrastructure Land Improvements	0.00	400,909.00	0.00	400,909.00
Buildings	1,315,559.00	0.00	0.00	1,315,559.00
Equipment – Road	4,510,835.00	196,313.00	11,633.00	4,695,515.00
Equipment – Shop	70,778.00	0.00	0.00	70,778.00
Equipment – Office	69,370.00	0.00	0.00	69,370.00
Equipment – Engineering	37,618.00	0.00	0.00	37,618.00
Equipment – Yard & Storage	150,730.00	0.00	0.00	150,730.00
Infrastructure - Roads	0.00	1,157,322.00	0.00	1,157,322.00
Subtotal	6,264,765.00	1,755,044.00	11,633.00	8,008,176.00
Less: Accumulated Depreciation	(4,654,339.00)	(414,160.00)	(11,633.00)	(5,056,866.00)
Subtotal	<u>1,610,426.00</u>	<u>1,340,884.00</u>	<u>0.00</u>	<u>2,951,310.00</u>
Total Component Units	<u>\$ 2,798,886.89</u>	<u>\$1,239,319.66</u>	<u>\$ 0.00</u>	<u>\$ 4,038,206.55</u>

Depreciation expense for governmental activities was charged to the following function and activities of the primary government:

Internal service funds \$ 5,027.68

Other governmental funds

Parks, recreation and cultural	85,604.07
Legislative	3,003.06
Judicial	25,857.76
General governmental administration	42,711.40
Public safety	280,167.53
Public works	2,062.11
Health and social services	310,855.96
	<u>750,261.89</u>

TOTAL

\$ 755,289.57

MASON COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS - Continued
DECEMBER 31, 2003

NOTE 11: CASH AND INVESTMENT

Deposits are carried at cost. Deposits are in financial institutions in the name of the Mason County Treasurer. Michigan Compiled Laws, Section 129.91, authorizes Mason County to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations. Investments can also be made in bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States, which are guaranteed as to principal and interest by the United States, including securities issued by the Government National Mortgage Association; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the three highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase and which involve no more than 50percent of any one fund. Michigan law prohibits security in the form of collateral, surety bonds, or other forms for deposit of public money. Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan. Mason County's deposits are in accordance with statutory authority. Mason County has adopted an investment policy as required by the State of Michigan.

The Governmental Accounting Standards Board (GASB) Statement No. 3 risk disclosure for deposits at year end are as follows:

DEPOSITS	BANK BALANCE		
	PRIMARY GOVERNMENT	COMPONENT UNIT	TOTAL
Insured	\$ 614,337.41	\$ 100,000.00	\$ 714,337.41
Uninsured	<u>6,900,530.90</u>	<u>2,256,268.56</u>	<u>9,156,799.46</u>
Total Deposits	<u>\$ 7,514,868.31</u>	<u>\$ 2,356,268.56</u>	<u>\$ 9,871,136.87</u>

At year end, the balance sheet carrying amounts of deposits were \$6,496,076.80 for primary government and \$2,139,618.56 for component unit.

In accordance with GASB Statement 3, investments are classified into three categories of credit risk as follows:

Category 1: Insured or collateralized with securities held by the Local Unit or its agent in the Local Unit's name.

Category 2: Collateralized with securities held by the pledging financial institution's trust department or agent in the Local Unit's name.

Category 3: Uncollateralized (includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the Local Unit's name).

INVESTMENT TYPE	CARRYING AMOUNT	MARKET VALUE
Category 1	\$ 872,711.16	\$ 872,711.16
Category 2	7,824,156.80	7,824,156.80
Category 3	<u>0.00</u>	<u>0.00</u>
Total Investments	<u>\$ 8,696,867.96</u>	<u>\$ 8,696,867.96</u>

MASON COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS - Continued
DECEMBER 31, 2003

NOTE 12: LONG-TERM OBLIGATIONS

The following is a summary of long-term debt transactions of the primary government and component unit for the year ended December 31, 2003:

	BALANCE JANUARY 1, 2003	ADDITIONS (DEDUCTIONS)	BALANCE DECEMBER 31, 2003	DUE WITHIN ONE YEAR
BUSINESS TYPE ACTIVITIES				
\$4,000,000.00 2003 Rural Development Sewer Bonds due in annual installments of \$42,000.00 to \$200,000.00 through April 1, 2043; interest at 4.50%	\$ 0.00	\$ 4,000,000.00	\$ 4,000,000.00	\$ 0.00
\$375,000.00 2001 Mason County Sewage Disposal & Water Supply Bonds due in annual installments of \$10,000.00 to \$25,000.00 through March 31, 2030; interest at 4.30% to 5.50%.	375,000.00	0.00	375,000.00	0.00
\$975,000.00 2001 Mason County Building Authority Bonds due in annual installments of \$25,000.00 to \$75,000.00 through November 1, 2021; interest at 4.00% to 5.45%	<u>950,000.00</u>	<u>(25,000.00)</u>	<u>925,000.00</u>	<u>25,000.00</u>
TOTAL BUSINESS-TYPE ACTIVITIES	\$ <u>1,325,000.00</u>	\$ <u>3,975,000.00</u>	5,300,000.00	\$ <u>25,000.00</u>
Less: amount payable within one year			<u>(25,000.00)</u>	
LONG-TERM DEBT BUSINESS- TYPE ACTIVITIES			\$ <u>5,275,000.00</u>	

MASON COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS - Continued
DECEMBER 31, 2003

NOTE 12: LONG-TERM OBLIGATIONS – Continued

	BALANCE JANUARY 1, 2003	ADDITIONS (DEDUCTIONS)	BALANCE DECEMBER 31, 2003	DUE WITHIN ONE YEAR
GOVERNMENTAL ACTIVITIES				
PRIMARY GOVERNMENT				
\$3,050,000.00 1998 Mason County Building Authority Bonds due in annual installments of \$225,000.00 to \$450,000.00 through February 1, 2008; interest at 3.90% to 4.70%.	\$ 2,150,000.00	\$(275,000.00)	\$ 1,875,000.00	\$ 325,000.00
\$100,000.00 2002 Mason County District Library Land Contract due in monthly installments of \$791.77 through December 4, 2016; interest at 5.019%.	95,413.63	(4,822.39)	90,591.24	5,070.04
\$1,890,000.00 2002 Mason County General Obligation Limited Tax Bonds due in annual installments of \$50,000.00 to \$200,000.00 through November 1, 2017; interest at 3.00% to 4.20%.	1,890,000.00	(50,000.00)	1,840,000.00	50,000.00
\$2,000,000.00 1996 Mason County Building Authority Bonds due in annual installments of \$75,000.00 to \$200,000.00 through November 1, 2011; interest at 4.50% to 6.50%.	1,450,000.00	(1,450,000.00)	0.00	0.00
Accrued Post Closure Landfill Costs	2,429,480.00	(149,526.00)	2,279,954.00	0.00
Accrued Vacation and Sick Pay	<u>439,476.44</u>	<u>40,198.78</u>	<u>479,675.22</u>	<u>0.00</u>
TOTAL PRIMARY GOVERNMENT	\$ <u>8,454,370.07</u>	\$(<u>1,889,149.61</u>)	6,565,220.46	\$ <u>380,070.04</u>
Less: amount payable within one year			(<u>380,070.04</u>)	
LONG-TERM DEBT PRIMARY GOVERNMENT			\$ <u>6,185,150.42</u>	

MASON COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS - Continued
DECEMBER 31, 2003

NOTE 12: LONG-TERM OBLIGATIONS – Continued

	BALANCE JANUARY 1, 2003	ADDITIONS (DEDUCTIONS)	BALANCE DECEMBER 31, 2003	DUE WITHIN ONE YEAR
COMPONENT UNIT				
Road Commission				
West Shore Bank – Install	\$ 94,396.00	\$(29,913.00)	\$ 64,483.00	
Caterpillar Financial				
Service Corp.	143,655.00	(9,093.00)	134,562.00	
Compensated Absences	291,303.00	(37,954.00)	253,349.00	
Lease Purchase				
Agreement – Case	<u>477,623.00</u>	<u>(159,208.00)</u>	<u>318,415.00</u>	
TOTAL	\$ <u>1,006,977.00</u>	\$(<u>236,168.00</u>)	\$ <u>770,809.00</u>	

The annual requirements to amortize all debt outstanding as of December 31, 2003, including interest payments are as follows:

BUSINESS TYPE ACTIVITIES

DUE DATE	PRINCIPAL	INTEREST	TOTAL
2004	\$ 25,000.00	\$ 245,675.00	\$ 270,675.00
2005	67,000.00	243,667.50	310,667.50
2006	78,000.00	240,478.00	318,478.00
2007	105,000.00	236,938.00	341,938.00
2008	110,000.00	232,105.00	342,105.00
2009-2013	561,000.00	1,084,115.00	1,645,115.00
2014-2018	655,000.00	944,135.50	1,599,135.50
2019-2023	704,000.00	763,056.50	1,467,056.50
2024-2028	602,000.00	613,593.50	1,215,593.50
2029-2033	669,000.00	462,764.00	1,131,764.00
2034-2038	772,000.00	304,068.00	1,076,068.00
2039-2043	<u>952,000.00</u>	<u>109,980.00</u>	<u>1,061,980.00</u>
TOTAL	\$ <u>5,300,000.00</u>	\$ <u>5,480,576.00</u>	\$ <u>10,780,576.00</u>

GOVERNMENTAL ACTIVITIES
PRIMARY GOVERNMENT

DUE DATE	PRINCIPAL	INTEREST	TOTAL
2004	\$ 380,070.04	\$ 149,608.70	\$ 529,678.74
2005	430,330.47	133,160.77	563,491.24
2006	445,604.24	114,874.50	560,478.74
2007	505,892.08	94,496.66	600,388.74
2008	581,194.72	71,069.02	652,263.74
2009-2013	736,085.66	231,208.04	967,293.20
2014-2018	726,414.03	77,068.80	803,482.83
Undetermined	<u>2,759,629.22</u>	<u>0.00</u>	<u>2,759,629.22</u>
TOTAL	\$ <u>6,565,220.46</u>	\$ <u>871,486.49</u>	\$ <u>7,436,706.95</u>

MASON COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS - Continued
DECEMBER 31, 2003

NOTE 12: LONG-TERM OBLIGATIONS – Concluded

COMPONENT UNIT

DUE DATE	PRINCIPAL	INTEREST	TOTAL
2004	\$ 200,220.00	\$ 10,101.00	\$ 210,321.00
2005	202,357.00	7,989.00	210,346.00
2006	<u>114,883.00</u>	<u>0.00</u>	<u>114,883.00</u>
Total	\$ <u>517,460.00</u>	\$ <u>18,090.00</u>	\$ <u>535,550.00</u>

NOTE 13: INTERFUND RECEIVABLES AND PAYABLES

The following are the interfund receivables and payables at December 31, 2003:

FUND	DUE FROM OTHER FUNDS	FUND	DUE TO OTHER FUNDS
Revolving Drain	\$ <u>36,172.18</u>	Drain	\$ <u>36,172.18</u>
Senior Citizens	64,936.23		
Friend of the Court	107,432.02		
Economic Development Corp.	50,103.79		
Building Department	165,044.44		
Jail Operations	50,628.86		
Social Welfare	66,000.00		
Medical Care Facility	50,549.55		
Child Care	292,720.85		
MCF Self Insurance	50,568.94		
Drain Revolving	<u>114,677.62</u>	General	<u>1,012,662.30</u>
Subtotal	<u>1,012,662.30</u>	Subtotal	<u>1,012,662.30</u>
		Ice Arena Construction	91,727.75
		Public Works	168,742.08
		Emergency Man. Grant	6,142.16
		OCC Grant	<u>3,395.25</u>
General	<u>270,007.24</u>	Subtotal	<u>270,007.24</u>
Subtotal	<u>270,007.24</u>		
Law Library	875.00		
District Library	<u>39,843.59</u>	Library Penal Fines	<u>40,718.59</u>
Subtotal	<u>40,718.59</u>	Subtotal	<u>40,718.59</u>
TOTAL	\$ <u>1,359,560.31</u>	TOTAL	\$ <u>1,359,560.31</u>

MASON COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS - Continued
DECEMBER 31, 2003

NOTE 14: TRANSFERS

The following are the transfers for the year ended December 31, 2003:

FUND	TRANSFER IN	FUND	TRANSFER OUT
Friend of the Court	\$ 318,000.00	General	\$3,054,024.00
Public Improvement	600,024.00		
Budget Stabilization	17,000.00		
Jail Operations	1,000,000.00		
Law Library	9,000.00		
Emergency Management	1,000.00		
Social Welfare	23,200.00		
Child Care	230,200.00		
Economic Development	96,550.00		
Jail Building Debt Service	50,000.00		
Equipment Replacement	255,500.00		
Public Works	31,100.00		
Landfill Post Closure	58,000.00		
Airport	122,950.00		
Self-Insurance Liability	161,500.00		
Workers' Comp Insurance	20,000.00		
Vacation and Sick Pay	60,000.00		
Subtotal	<u>3,054,024.00</u>	Subtotal	<u>3,054,024.00</u>
Equipment Replacement	25,000.00	Jail Operations	114,911.17
Jail Construction	80,000.00		
Self Ins. – Workers Comp.	9,911.17		
Subtotal	<u>114,911.17</u>	Subtotal	<u>114,911.17</u>
Medical Care Facility Imp.	60,000.00	Medical Care Facility	118,000.00
MCF Employee Paid Time Off	40,000.00		
MCF Employee Short-Term Dis.	18,000.00		
Subtotal	<u>118,000.00</u>	Subtotal	<u>118,000.00</u>
District Library Debt Service	9,501.24		
District Library Improvement	16,992.32	District Library	26,493.56
Subtotal	<u>26,493.56</u>	Subtotal	<u>26,493.56</u>
Public Improvement Debt Serv.	36,000.00	Courthouse Preservation	36,000.00
DTR – 2000 Tax	257,307.83		
DTR – 2001 Tax	219,735.91		
DTR – 2002 Tax	116,335.12		
DTR – 2003 Tax	16.00	Del. Tax Revolving	593,394.86
Subtotal	<u>593,394.86</u>	Subtotal	<u>593,394.86</u>
MCF Improvement	40,000.00	MCF Employee Paid Time Off	40,000.00
		FIA Building Debt Service	1,000,000.00
		Public Improvement	88,000.00
Delinquent Tax Revolving	1,088,333.39	DTR – 2002 Tax	333.39
Subtotal	<u>1,088,333.39</u>	Subtotal	<u>1,088,333.39</u>
TOTAL	\$ <u>5,071,156.98</u>		\$ <u>5,071,156.98</u>

MASON COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS - Continued
DECEMBER 31, 2003

NOTE 15: PRIOR PERIOD ADJUSTMENTS

For the year ended December 31, 2003, the following prior period adjustments have resulted in Fund Balance/Retained Earnings restatements:

GENERAL FUND	
Record various expenditure corrections	\$ 20.00
Record various revenue corrections	(1,535.08)
SPECIAL REVENUE FUNDS	
Record various expenditure corrections	
MSU Extension	657.29
Record various revenue corrections	
Social Welfare	(826.00)
Building Authority Operations	(1,594.26)
INTERNAL SERVICE FUNDS	
Record various expenditure corrections	
Health & Life Insurance	\$(61,861.00)
DPW Equipment Revolving	(964.57)
ENTERPRISE FUNDS	
Record fixed asset activity in prior years	
Public Works	437,607.10
Airport	181,316.81
Record prior years tax receivable adjustments	
2000 Delinquent Tax Revolving	.02
2001 Delinquent Tax Revolving	.02

NOTE 16: RISK FINANCING ACTIVITIES

It is the policy of the County of Mason not to purchase commercial insurance for all of the risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Instead, the County management believes it is more economical to manage its risks internally and set aside assets for claim settlement in various internal service funds. The Worker's Compensation Insurance Fund has an annual retention of \$400,000 for each worker's compensation claim. The Self-Insurance Liability and Property Fund provides coverage for a maximum aggregate annual retention of \$109,000 for general liability. The Medical Care Facility Insurance Fund is used to account for the worker's compensation claims of the County Medical Care Facility. The County, through its insurance service organization, Michigan Municipal Risk Management Authority, has reinsurance with umbrella coverage for liability and property damage of \$15,000,000. The reinsurance for Worker's Compensation is the statutory maximum. Settled claims have not exceeded the retention amount in any of the past three fiscal years.

The County appropriates funds from the General Fund to pay to the Worker's Compensation Insurance Fund and the Self-Insurance Liability Fund based on estimates of the amounts needed to pay prior- and current-year claims and to establish a reserve for catastrophic losses in the Worker's Compensation Insurance Fund. The reserve was \$848,780.50 at December 31, 2003 and is reported as a designation of the Worker's Compensation Insurance Fund fund balance. The claims liability of \$57,608.00 reported in the two Worker's Compensation Insurance Funds at December 31, 2003 is based on the requirements of Governmental

MASON COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS - Continued
DECEMBER 31, 2003

NOTE 16: RISK FINANCING ACTIVITIES – Continued

Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Changes in the two Worker's Compensation Insurance Funds' claims liability amount in calendar year 2003 were:

Liability Balance January 1, 2003	\$ 194,083.00
Current-year Claims and changes in estimates	(52,854.64)
Claim Payments	<u>(83,620.36)</u>
Liability Balance December 31, 2003	<u>\$ 57,608.00</u>

The claims liability of \$44,791.17 reported in the Self-Insurance Liability Fund at December 31, 2003 is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the Self-Insurance Liability Fund's claims liability amount in calendar year 2003 were:

Liability Balance January 1, 2003	\$ 58,789.61
Current-year Claims and changes in estimates	(12,680.34)
Claim Payments	<u>(1,318.10)</u>
Liability Balance December 31, 2003	<u>\$ 44,791.17</u>

Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

The County of Mason is required to maintain a membership retention fund with its insurance service organization Michigan Municipal Risk Management Authority. The County records this retention amount as a deposit on the balance sheet of the Self-Insurance Liability Fund. The balance at December 31, 2003 is as follows:

Member Retention Deposit	<u>\$287,116.89</u>
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Mason County Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool established pursuant to the laws of the State of Michigan which authorize contracts between municipal corporations (inter-local agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts. The Pool was established for the purpose of making a self-insurance pooling program available which includes, but is not limited to, general liability coverages, auto liability coverages, property insurance coverages, stop loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

MASON COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS - Continued
DECEMBER 31, 2003

NOTE 16: RISK FINANCING ACTIVITIES – Concluded

The Mason County Road Commission pays an annual premium to the Pool for property (buildings and contents) coverage, automobile and equipment liability, errors or omissions liability and bodily injury, property damage and personal injury liability. The agreement for the information of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board. Settled claims for the general liability coverages have not exceeded the amount of coverage in any of the past three years. The Road Commission is also self-insured for worker's compensation as a member of the County Road Association Self Insurance Fund.

NOTE 17: LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

The County of Mason has two landfills under its jurisdiction. The Mason County Landfill located in Pere Marquette Charter Township has been closed since 1978. A 1994 settlement with the Environmental Protection Agency requires the County to perform certain maintenance and monitoring functions at the site for thirty years. The County records the liability for these postclosure care costs in their General Long-Term Debt Account Group because these costs will be paid over a thirty year period. The liability for postclosure care costs for the landfill in Pere Marquette Charter Township at December 31, 2003 was \$781,704.00. These amounts are based on estimates of the cost to perform all post closure care in 2003.

Actual cost may be higher due to inflation, changes in technology or changes in regulations.

The Mason County Landfill located in the City of Scottville discontinued operations in 1998. State and federal laws and regulations required the County to place a final cover on the Scottville landfill site in 1998. The County is also required to perform certain maintenance and monitoring functions at the site for thirty years following closure. The County records the liability for these postclosure care costs in the General Long-Term Debt Account Group because these costs will be paid over a thirty year period. The liability for post closure care cost for the landfill in Scottville at December 31, 2003 was \$1,498,250.00. These amounts are based on estimates of the cost to perform all the post closure care in 2003. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

The County was required by state and federal laws and regulations to make quarterly contributions to a trust fund to finance postclosure care. At December 31, 2003, a cash balance of \$90,090.84 was held for this purpose. In addition, the County has earmarked \$1,844,650.63 in the Post Closure Care Trust Fund to finance postclosure care costs.

The County expects that future inflation costs will be paid from interest earnings on these annual contributions. However, if interest earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by General Fund appropriations.

MASON COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS - Continued
DECEMBER 31, 2003

NOTE 18: CONTINGENT LIABILITIES

The County participates in a number of federal and state assisted programs. These programs are subject to program compliance audits by the grantors or their representatives. The audits of these programs for or including the year ended December 31, 2003 have not yet been conducted. Accordingly, the County's compliance with the program requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the County expects such amounts, if any, to be immaterial.

NOTE 19: JOINTLY GOVERNED ORGANIZATIONS

District Health Department

On October 1, 1997, the Manistee-Mason District Health Department dissolved and both Mason County and Manistee County became members of the new ten member District Health Department No. 10. Members of District Health Department No. 10 include the counties of Crawford, Kalkaska, Lake, Manistee, Mason, Mecosta, Missaukee, Newaygo, Oceana and Wexford. The new funding formula approved by the District Health Department No. 10 is based pro rata on each unit's population to the total population. Mason County's appropriation to the District Health Department for the calendar year was \$148,274.04.

Community Mental Health System

Mason County, Lake County and Oceana County participate jointly in the operation of the West Michigan Community Mental Health System. The funding formula approved by the counties is based pro rata on each unit's population to the total population.

Member percentages of the net operating budget for the year ended December 31, 2003 were:

Mason County	45.00 percent
Lake County	15.00 percent
Oceana County	40.00 percent

Mason County's appropriation to West Michigan Community Mental Health System for the calendar year was \$139,750.44.

NOTE 20: DEFERRED COMPENSATION PLANS

The County of Mason has two deferred compensation plans, created in accordance with the Internal Revenue Code, Section 457. The plans, available to all employees, permit them to defer a portion of their current salary until the employee's termination, retirement, death, or unforeseeable emergency.

The County of Mason adopted a new 457 plan document, which incorporates the recent changes to the law governing 457 deferred compensation plans. The most notable change in the plan provides that the employer establish a plan level trust in which all amounts deferred must be placed and held for the exclusive benefit of plan participants and their beneficiaries. As a result of this change, the plan assets are no longer subject to claims of the County's general creditors. All amounts of compensation deferred under the plan, all property and rights purchased with such amounts, and all income attributable to such amounts, property, or rights are for the exclusive benefit of the employee or their beneficiary.

It is the opinion of the County's legal counsel that the County has no liability for losses under the plans, but it does have the duty of care that would be required of an ordinary prudent investor. Therefore, the deferred compensation assets and liability have been removed from the County's fiduciary fund as it is no longer required to be shown in the statements.

MASON COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS - Continued
DECEMBER 31, 2003

NOTE 20: DEFERRED COMPENSATION PLANS - Concluded

Mason County Road Commission offers all administrative Road Commission employees a deferred compensation plan created in accordance with IRC Section 457. Effective in 2001, the assets of the plan were held in a trust, custodial account or annuity contract described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodial account is held by the custodian thereof for the exclusive benefit of the participants and beneficiaries of the Section 457 plans and the assets may not be diverted to any other use.

In 1999, the Deferred Compensation Fund was treated as an expendable trust fund. During 1999, the assets of the Deferred Compensation Fund were placed in a trust and reported in an expendable trust fund. In accordance with GASB Statement No. 32 requirements, these assets are no longer reported in the financial statements.

NOTE 21: POST-EMPLOYMENT BENEFITS

The County of Mason offers post-employment health insurance benefits to its employees. Substantially, all employees are eligible to receive post-employment benefits in the form of health care benefits until the age of 70. These benefits are provided by contractual agreement and are paid annually by the General Fund. The County funds these costs on a pay-as-you-go basis. The amounts are recorded as an expenditure when the fund liability is incurred. The benefit amounts incurred totaled \$154,617.75 during the year ended December 31, 2003. The total number of eligible retirees amounted to twenty-three at December 31, 2003. The County pays 100% of these costs. There are no provisions for employee contributions.

The Road Commission provides post retirement health care benefits to employees who retire from the Road Commission after January 1, 1989 and are between the ages of 58 and 65 and have ten years of service. The Road Commission will pay \$250.00 of the cost for the employee and spouse. During 2003, the Road Commission funded approximately \$17,929.00 in post employment health care benefits for retired employees. Five employees were eligible for these post retirement benefits.

NOTE 22: RETIREMENT SYSTEM - MERS OPERATED

COUNTY-WIDE

Plan Description

The County participates in the Michigan Municipal Employees Retirement System (MERS), an agent multiple employer public employee retirement system, MERS is authorized and operated under state law, Act 135 of the Public Acts of 1945 as amended. The County retirement system includes employees of the Sheriff's Department. A separate account is maintained by MERS for this department. Substantially all employees are covered by a retirement system. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to Michigan Municipal Employees Retirement System, 7150 Harris Drive, 3rd Floor, General Office Building, P.O. Box 30174, Lansing, Michigan 48909.

Funding Policy

The obligation to contribute to and maintain the system for the Sheriff Department was established by negotiation with the County's two competitive bargaining units and County Board action established the obligation for the employees not represented by bargaining unit.

MASON COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS - Continued
DECEMBER 31, 2003

NOTE 22: RETIREMENT SYSTEM - MERS OPERATED - Continued

Annual Pension Cost

For the year ended December 31, 2003 the County's annual pension cost of \$847,962.94 was equal to the County's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 1997, based on a defined benefit for the various employee groups. Significant actuarial assumptions used include (a) a 8.00% investment rate of return; (b) projected salary increases of 4.5% per year plus a percentage based on an age-related scale to reflect merit, longevity and promotional salary increases; and (c) 2.5% per year cost of living adjustments. Both (a) and (b) include an inflation component of 4.5%. The actuarial value of assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value. This procedure was instituted for the December 31, 1993 valuation and is applied as follows: (I) Preliminary value is determined by taking the sum of actuarial value at the beginning of the year and the excess of income over expenses during the year, assuming that the fund earns the assumed rate (8%) during year; (II) this value is written-up or written-down by taking 20% of each year's difference between actual and expected return for the next five years. Actual return for the year includes net interest, dividends, realized and unrealized gains or losses; (III) in addition, the write-ups or write-downs that arose from each of the four years prior to 1998 continue to be applied until each five-year period expires. The unfunded actuarial liability is being amortized by level percent of payroll contributions over a period ranging from 30 to 36 years.

Three year trend information

	Plan year ended December 31:		
	2000	2001	2002
Annual pension cost	\$ 728,347.00	\$ 745,284.00	\$ 807,828.00
Percentage of Annual pension cost contributed	100.00%	100.00%	100.00%
Net Pension obligation	-0-	-0-	-0-
Actuarial value of assets	22,142,680.00	23,733,430.00	24,505,099.00
Actuarial Accrued Liability	22,757,058.00	24,220,658.00	25,758,213.00
Unfunded (Overfunded) Actuarial Accrued Liability	614,378.00	487,228.00	1,253,114.00
Funded ratio	97.00%	98.00%	95.00%
Covered payroll	5,977,942.00	6,286,722.00	6,481,004.00
UAAL (OAAL) as a percentage of covered payroll	10.00%	8.00%	19.00%

ROAD COMMISSION

Plan Description – Mason County Road Commission participates in a defined benefit retirement plan administered by the Municipal Employee's Retirement System (MERS). The plan covers substantially all full-time employees.

The Municipal Employees Retirement System of Michigan (MERS) is a multiple-employer statewide public employee retirement plan created by the State of Michigan to provide retirement, survivor and disability benefits, on a voluntary basis to the State's local government employees in the most efficient and effective manner possible. As such, MERS is a non-profit entity which has the responsibility of administering the law in accordance with the expressed intent of the Legislature and bears a fiduciary obligation to the State of Michigan, the taxpayers and the public employees who are its beneficiaries.

MASON COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS - Continued
DECEMBER 31, 2003

NOTE 22: RETIREMENT SYSTEM - MERS OPERATED- Continued

All full time County Road union and administrative employees are eligible to participate in the system. Benefits vest after ten years of service. Employees who retire at or after age 55 with 30 years credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 2.0 percent of the member's 5-year final average compensation per year of service. The system also provides death and disability benefits which are established by State Statute.

Participating County Road employees are required to contribute 2.0 percent of annual compensation. The County Road is required to contribute the amounts necessary to fund the Michigan Municipal Employees Retirement System using the actuarial basis specified by statute.

Actuarial Accrued Liability – The actuarial accrued liability was determined as part of an initial actuarial valuation of the plan as of December 31, 2002. Significant actuarial assumptions used in determining the investment of present and future assets of 8.0%, (a) inflation, and (b) additional projected salary increases of 4.5% per year, depending on age, attributable to seniority/merit.

All entries are based on the actuarial methods and assumption that were used in the December 31, 2002 actuarial valuation to determine the annual employer contribution amounts. The entry age normal actuarial method was used to determine the entries at disclosure.

GASB 25 INFORMATION (as of 12/31/02)

Actuarial Accrued Liability:	
Retirees and beneficiaries currently receiving benefits	\$ 330,020
Terminated employees not yet receiving benefits	23,697
Current employees:	
Accumulated employee contributions including allocated investment income	504,452
Employer financed	<u>1,988,220</u>
Total Actuarial accrued liability	2,846,389
Net Assets Available for Benefits, at estimated market value	
Union pension plan to be rolled into MERS	<u>1,107,448</u>
Unfunded (over funded) actuarial accrued liability	<u>\$ 1,738,941</u>

GASB 27 INFORMATION (as of 12/31/02)

Fiscal year beginning	January 31, 2004
Annual required contribution (ARC)	\$ 184,068
Required amortization of unfunded liability	<u>158,208</u>
	<u>\$ 342,276</u>

MASON COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS - Continued
DECEMBER 31, 2003

NOTE 22: RETIREMENT SYSTEM - MERS OPERATED- Concluded

Contributions Required and Contributions Made

MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the fiscal year ended December 31, 2003 were determined using the entry age normal actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years.

As part of the agreement to join the MERS system, the County Road Commission was required to contribute, over a four year period, 50% of the unfunded liability. The following schedule shows a computation of that contribution amount.

Total unfunded actuarial accrued liability (Per initial valuation dated January 31, 2003)	\$ 2,401,662
Required initial amortization of unfunded liability – 50%	1,200,831
Less roll over of prior union pension plan	<u>(564,000)</u>
Net amount due	<u>\$ 636,831</u>

Schedule of contributions due not later than December 31, of each year:

2002	\$159,208	Paid in 2002
2003	159,208	Paid in 2003
2004	159,208	
2005	<u>159,207</u>	
	<u>\$636,831</u>	

The \$159,208 is recorded as a fringe benefit expense each year when paid and allocated to the various line item expenditure accounts. The payment is also shown as a payment of long-term debt, so it is shown on the accompanying Statement of Activities as a subtraction because it is included, for the most part, in the other line item expenditures.

NOTE 23: ROAD COMMISSION REVENUES/EXPENDITURES

All Federal dollars recorded by the Mason County Road Commission in 2003 were for projects controlled by the Michigan Department of Transportation. Federal compliance testing of these funds will be included in the audit of the Michigan Department of Transportation and not at the local Road Commission level. No A-133 Single Audit is required for the Mason County Road Commission.

MASON COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS - Concluded
DECEMBER 31, 2003

NOTE 24: ROAD COMMISSION STATE EQUIPMENT PURCHASE ADVANCE/HIGHWAY MAINTENANCE ADVANCE

State equipment purchase advance is determined by a formula applied to the book value of equipment of the previous fiscal year. This amount is adjusted each fiscal year in accordance with the formula and would be refunded to the State Department of Transportation upon termination of the State Highway Maintenance Contract. Equipment advance monies for fiscal 2003 amounted to \$137,098.00. The State has also advanced \$46,184.00 on the highway maintenance agreement.

NOTE 25: NET ASSETS/RETAINED EARNINGS RESERVATIONS AND DESIGNATIONS

At December 31, 2003, the following portions of the fund equity/retained earnings were reserved in the following funds:

	<u>UNRESTRICTED – RESERVED</u>		<u>RESTRICTED FOR</u>		
	FOR	FOR	EMPLOYEE	ACCUMULATED	LANDFILL
	PREPAID	ADVANCES	BENEFITS	VACATION AND SICK PAY	PERPETUAL CARE
	EXPENSE				
General fund	88,569.15	14,581.13	0.00	0.00	0.00
Senior Citizens fund	1,165.50	0.00	0.00	0.00	0.00
Friend of the Court fund	3,527.90	0.00	0.00	0.00	0.00
Economic Development fund	26.40	0.00	0.00	0.00	0.00
Building Department fund	1,972.57	0.00	0.00	0.00	0.00
Community Corrections fund	207.50	0.00	0.00	0.00	0.00
Jail Operations fund	15,713.70	0.00	0.00	0.00	0.00
District Library fund	7,024.25	0.00	0.00	0.00	0.00
Child Care fund	846.99	0.00	0.00	0.00	0.00
Medical Care Facility fund	0.00	0.00	502,222.78	0.00	0.00
Self Insurance fund	0.00	0.00	659,276.85	0.00	0.00
Self Insurance Workers'					
Compensation fund	0.00	0.00	848,780.50	0.00	0.00
Self Insurance Health fund	0.00	0.00	236,987.29	0.00	0.00
Self Insurance Medical Care					
Facility Disability fund	0.00	0.00	98,560.46	0.00	0.00
Landfill Perpetual Care fund	0.00	0.00	0.00	0.00	1,844,650.63
Medical Care Facility Employee					
Benefits fund	0.00	0.00	0.00	80,186.86	0.00
Vacation & Sick Pay Trust fund	0.00	0.00	0.00	486,466.41	0.00
Public Improvement fund	0.00	8,692.63	0.00	0.00	0.00